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Henry B. Steagall, chairman.

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AMENDMENTS TO NATIONAL HOUSING ACT

United States Congress-House of Rep.
Committee on Banking and Currency

AMENDMENTS TO NATIONAL HOUSING ACT

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIFTH CONGRESS

SECOND SESSION

ON

H. R. 8520

TO AMEND THE NATIONAL HOUSING ACT
AND FOR OTHER PURPOSES

Smil

NOVEMBER 30, DECEMBER 1, 2, 3, 7, 8, 9, 10, 1937

UNITED STATES
GOVERNMENT PRINTING OFFICE
33604 WASHINGTON : 1937

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AMENDMENTS TO NATIONAL HOUSING ACT

TUESDAY, NOVEMBER 30, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Goldsborough, Reilly, Hancock, Williams, Spence, Meeks, Ford of California, Brown, McKeough, Evans, Transue, Wolcott, Fish, Gifford, Luce, Crawford, Gamble.

The CHAIRMAN. The committee will be in order.

Gentlemen, we have before us H. R. 8520, which is the administration housing bill. The measure was explained more or less in detail in the President's message. I am not going to take the time of the committee to make any statement myself now.

(H. R. 8520 is reproduced below in full as follows:)

[H. R. 8520, 75th Cong., 2d sess.]

A BILL To amend the National Housing Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That titles I, II, III, and V of the National Housing Act, as amended, be further amended as follows:

SEC. 2. Section 201 of title II is amended by striking out the words "As used in this title" and inserting in lieu thereof the words "As used in section 203 of this title"; and by amending subsection (a) of such section to read as follows:

"(a) The term 'mortgage' means a first mortgage on real estate, in fee simple, or on a leasehold (1) under a lease for not less than ninety-nine years which is renewable; or (2) under a lease having a period of not less than fifty years to run from the date the mortgage was executed, and the term 'first mortgage' means such classes of first liens as are commonly given to secure advances on, or the unpaid purchase price of, real estate, under the laws of the State, district, or Territory in which the real estate is located, together with the credit instruments, if any, secured thereby."

SEC. 3. Section 201 of title II is further amended by adding thereto the following subsection (c) as follows:

"(c) The term 'maturity date' means the date on which the mortgage would mature if paid in accordance with periodic payments provided for therein."

SEC. 4. Section 202 of title II is amended by inserting immediately following the word "title" as it appears first in said section the words "with respect to mortgages insured under section 203."

SEC. 5. Section 203 (a) of title II is amended to read as follows:

"SEC. 203. (a) The Administrator is authorized, upon application by the mortgagee, to insure as hereinafter provided any mortgage offered to him which is eligible for insurance as hereinafter provided, and, upon such terms as the Administrator may prescribe, to make commitments for the insuring of such mortgages prior to the date of their execution or disbursement thereon: *Provided*, That, except with the approval of the President, the aggregate outstanding principal obligation of all mortgages insured under this title shall at no time exceed $2,000,000,000: *And provided further*, That on and after July 1, 1939, no mortgages shall be eligible for insurance under this title except mortgages that cover

property which is approved for mortgage insurance prior to the completion of the construction of such property, or covering property the construction of which was commenced after June 27, 1934; except that this proviso shall not apply to any mortgage on property which, at any time, has been covered by a mortgage insured by the Administrator."

SEC. 6. Subsection (1) of section 203 (b) of title II is amended to read as follows:

"(1) Be held by a mortgagee approved by the Administrator as responsible and able to service the mortgage properly."

SEC. 7. Subsection (2) of section 203 (b) of title II is amended to read as follows:

"(2) Involve a principal obligation (including such initial service charges, appraisal, inspection, and other fees as the Administrator shall approve) (A) in an amount not to exceed $16,000 and not to exceed 80 per centum of the appraised value (as of the date the mortgage is accepted for insurance) of a property upon which there is located a dwelling or dwellings designed principally for residential use for not more than four families in the aggregate, irrespective of whether such dwelling or dwellings have a party wall or are otherwise physically connected with another dwelling or dwellings, except (B) as to mortgages for an amount not in excess of $5,400 and covering such dwelling or dwellings, the construction of which is begun after the enactment of this Act, the principal obligation as herein defined may be in an amount not to exceed 90 per centum of the appraised value of the property as of the date the mortgage is accepted for insurance: *Provided*, That the mortgagor shall be the owner and occupant of the property and at the time of the insurance shall have paid on account of the property at least 10 per centum of the appraised value in cash or its equivalent; and the property shall have been approved for mortgage insurance prior to the beginning of the construction of such dwelling or dwellings."

SEC. 8. Subsection (3) of section 203 (b) of title II is amended to read as follows:

"(3) Have a maturity satisfactory to the Administrator, but not to exceed twenty years from the date of the insurance of the mortgage."

SEC. 9. The first sentence of section 203 (c) of title II is amended to read as follows:

"(c) The Administrator is authorized to fix a premium charge for the insurance mortgages under this section which in no case shall be less than an amount equivalent to one-half of 1 per centum per annum nor more than an amount equivalent to 1 per centum per annum of the amount of the principal obligation outstanding at any time, without taking into account delinquent payments or prepayments, except that as to mortgages described in paragraph (B) of subsection (2) of section 203 (b) the premium charge may be one-fourth of 1 per centum per annum on such outstanding principal. Such premiums shall be payable by the mortgagee either in cash or debentures issued by the Administrator under this title, at par plus accrued interest, in such manner as may be prescribed by the Administrator: *Provided*, That the Administrator may require the payment of one or more such premiums at the time the mortgage is insured at such discount rate as he may prescribe not in excess of the interest rate specified in the mortgage."

The last sentence of said section is amended to read as follows: "In the event that the principal obligation of any mortgage accepted for insurance under this section is paid in full prior to the maturity date specified in the mortgage, the Administrator is further authorized in his discretion to require the payment by the mortgagee of a premium charge in such amount as the Administrator determines to be equitable, but not in excess of the aggregate amount of the premium charges that the mortgagee would otherwise have been required to pay if the mortgage had continued to be insured under this section until such maturity date; and in the event that the principal obligation is paid in full as herein set forth and a mortgage for a similar or greater term and amount on the same property is accepted for insurance at the time for such payment, the Administrator is authorized to refund to the mortgagee all, or such portion as he shall determine to be equitable, of the current unearned annual mortgage-insurance premium theretofore paid."

SEC. 10. Section 204 (a) of title II is amended to read as follows:

"SEC. 204. (a) In any case in which the mortgagee under a mortgage insured under section 203 or section 210 shall have forclosed and taken possession of the mortgaged property in accordance with regulations of, and within a period to be determined by, the Administrator, or shall, with the consent of the Administrator, have otherwise acquired such property from the mortgagor after default, the mortgagee, upon (1) the prompt conveyance to the Administrator of such title to the property as meets the requirements of rules and regulations of the Administrator in force at the time the mortgage was insured and evidenced in such manner as may be prescribed by such rules and regulations, and (2) the assignment to him of all claims of the mortgagee against the mortgagor or others, arising out of the mortgage transaction or foreclosure proceedings, except such claims as may have been released with the consent of the Administrator, shall be entitled to receive the benefit of the insurance as hereinafter provided. Upon such conveyance and assignment the obligation of the mortgagee to pay the premium charges for insurance shall cease and the Administrator shall, subject to the cash adjustment hereinafter provided, issue to the mortgagee debentures having a total face value equal to the value of the mortgage as hereinafter defined and a certificate of claim, as hereinafter provided. For the purposes of this subsection, the value of the mortgage shall be determined, in accordance with rules and regulations prescribed by the Administrator, by adding to the amount of the original principal of the mortgage which was unpaid on the date of the institution of foreclosure proceedings, or the acquisition of the property otherwise after default, the amount of all payments which have been made by the mortgagee for taxes, special assessments, and water rates which are liens prior to the mortgage, insurance on the property mortgaged and any mortgage insurance premiums paid after the institution of foreclosure proceedings or the acquisition of the property otherwise after default and by deducting from such total any net amount received on account of the mortgage after the institution of foreclosure proceedings or the acquisition of the property otherwise after default and from any source relating to the property on account of rent or other income after deducting reasonable expenses incurred in handling the property between such dates.

"The Administrator may at any time, under such terms and conditions as he may prescribe, consent to the release of the mortgagor from his liability under the mortgage or the credit instrument secured thereby, or consent to the release of parts of the mortgaged property from the lien of the mortgage.

"In the event a mortgage becomes in default and such default is cured and the mortgage is reinstated by payments thereon equal to the amounts in default, the mortgage insurance provided by this Act shall continue as though no default had occurred.

"Debentures issued under this section shall be in such form and denominations in multiples of $50 and subject to such terms and conditions and shall include such provisions for redemption, if any, as may be prescribed by the Administrator with the approval of the Secretary of the Treasury and may be in coupon or registered form. Any difference between the value of the mortgage determined as herein provided and the aggregate face value of the debentures issued, not to exceed $50, shall be adjusted by the payment by the Administrator of cash from the fund as to mortgages insured under section 203 and from the housing fund as to mortgages insured under section 210."

SEC. 11. Section 204 (b) of title II is amended to read as follows:

"(b) The debentures issued under this section to any mortgagee shall be executed in the name of the Mutual Mortgage Insurance Fund as obligor and signed by the Administrator by either his written or engraved signature, and shall be negotiable. They shall be dated as of the date foreclosure proceedings were instituted, or the property was otherwise acquired by the mortgagee after default, and shall bear interest from such date at a rate determined by the Administrator at the time the mortgage was offered for insurance, but not to exceed 3 per centum per annum, payable semiannually on the 1st day of January and the 1st day of July of each year, and shall mature three years after the 1st day of July following the maturity date of the mortgage on the property in exchange for which the debentures were issued. Such debentures as are issued in exchange for property covered by mortgages insured after the effective date of this amendment shall not be exempt from taxation, shall be paid out of the fund which shall be primarily liable therefor, and shall be fully and unconditionally guaranteed as to principal and interest by the United States and such guaranty shall be expressed on the face of the debentures. In the event that the fund fails to pay upon demand, when due, the principal of or interest on any debentures so guaranteed, the Secretary of the Treasury shall pay to the holders the amount thereof which is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such debentures. Mortgagees of mortgages accepted for insurance prior to this amendment shall be entitled to receive cash adjustments and debentures issued in accordance with this section as hereby amended."

SEC. 12. Section 204 (c) of title II is amended to read as follows:

"(c) The certificate of claim issued by the Administrator to any mortgagee shall be for such an amount as the Administrator determines to be sufficient to equal the difference between the aggregate face value of the debentures issued to the mortgagee plus the cash adjustment provided for in subsection (a) of this section and the amount which the mortgagee would have received if, at the time of the acquisition of the title by the mortgagee in accordance with subsection (a) of this section, all obligations of the mortgagor based on the mortgage indebtedness had been discharged in full, including a reasonable amount for necessary expenses incurred by the mortgagee in connection with the foreclosure proceedings, or the acquisition of the mortgaged property otherwise, and the conveyance thereof to the Administrator. Each such certificate of claim shall provide that there shall accrue to the holder of such certificate with respect to the face amount of such certificate, an increment at the rate of 3 per centum per annum which shall not be compounded. The amount to which the holder of any such certificate shall be entitled shall be determined as provided in subsection (d) of this section."

SEC. 13. The first sentence of section 204 (d) of title II is amended to read as follows:

"(d) If the net amount realized from any property conveyed to the Administrator under this section and the claims assignedthere with, after deducting all expenses incurred by the Administrator in handling, dealing with, and disposing of such property and in collecting such claims, exceeds the face amount of the debentures issued and cash paid in exchange for such property plus all interest paid on such debentures, such excess shall be divided as follows:".

SEC. 14. Section 204 (e) of title II is amended to read as follows:

"(e) Notwithstanding any other provision of law relating to the acquisition, handling, or disposal of real property by the United States, the Administrator shall have power to deal with, complete, rent, renovate, modernize, insure, or sell for cash or credit, in his discretion, any properties conveyed to him in exchange for debentures and certificates of claim as provided in this section; and notwithstanding any other provision of law, the Administrator shall also have power to pursue to final collection, by way of compromise or otherwise, all claims against mortgagors assigned by mortgagees to the Administrator as provided in this section: *Provided*, That section 3709 of the Revised Statutes shall not be construed to apply to any purchase or service on account of such property."

SEC. 15. Section 205 (a) of title II is amended to read as follows:

"(a) Mortgages accepted for insurance under section 203 shall be classified into groups in accordance with sound actuarial practice and risk characteristics. Premium charges, appraisal and other fees received for the insurance of any such mortgage, the receipts derived from the property covered by the mortgage and claims assigned to the Administrator in connection therewith and all earnings on the assets of the group account shall be credited to the account of the group to which the mortgage is assigned. The principal of and interest paid and to be paid on debentures issued in exchange for property conveyed to the Administrator under section 204 in connection with mortgages insured under section 203, payments made or to be made to the mortgagee and the mortgagor as provided in said section, and expenses incurred in the handling of the property covered by the mortgage and in the collection of claims assigned to the Administrator in connection therewith, shall be charged to the account of the group to which such mortgage is assigned."

SEC. 16. Section 205 (b) of title II is amended by inserting immediately after the word "title" in the second sentence thereof the words "with respect to mortgages insured under section 203."

SEC. 17. Section 205 (c) of title II is amended to read as follows:

"The Administrator shall terminate the insurance as to any group of mortgages (a) when he shall determine that the amounts to be distributed as hereinafter set forth to each mortgagee under an outstanding mortgage assigned to such group are sufficient to pay off the unpaid principal of each such mortgage, or (b) when all the outstanding mortgages in any group have been paid. Upon such termination the Administrator shall charge the group account with the estimated losses arising from transactions relating to that group, shall transfer to the General Reinsurance Account an amount equal to 10 per centum of the total premium charges theretofore credited to such group account, and shall distribute to the mortgagees for the benefit and account of the mortgagors of the mortgages assigned to such group the balance remaining in such group in such proportions as may be equitable as among such mortgages and in accordance with sound actuarial and accounting practice."

SEC. 18. Section 205 (d) of title II is hereby repealed.

SEC. 19. Section 205 (e) of title II is amended to read as follows:

"No mortgagor or mortgagee of any mortgage insured under section 203 shall have any vested right in a credit balance in any such account, or be subject to any liability arising out of the mutuality of the fund, and the determination of the Administrator as to the amount to be paid by him to any mortgagee or mortgagor shall be final and conclusive."

SEC. 20. Section 205 (f) of title II is amended to read as follows:

"(f) In the event that any mortgagee under a mortgage insured under section 203 shall create or sell partial interests therein, except upon such conditions and restrictions as the Administrator shall prescribe, or forecloses on the mortgaged property but does not convey such property to the Administrator in accordance with section 204, or in the event that the mortgagor pays the obligation under the mortgage in full prior to the maturity thereof and the Administrator is given due notice of such payment, the obligation to pay the annual premium charge for insurance shall cease and all rights of the mortgagee and the mortgagor under section 204 shall terminate. Upon such termination the mortgagor shall be entitled to receive a share of the credit balance allocated to such mortgage under section 205 (a) in such amount as the Administrator shall determine to be equitable and not inconsistent with the solvency of the group account and of the fund."

SEC. 21. Section 206 of title II is amended to read as follows:

"SEC. 206. Moneys in the fund not needed for the current operations of the Federal Housing Administration shall be deposited with the Treasurer of the United States to the credit of the fund, or invested in bonds or other obligations of, or guaranteed as to principal and interest by, the United States. The Administrator may, with the approval of the Secretary of the Treasury, purchase in the open market debentures issued under the provisions of section 204. Such purchases shall be made at a price which will provide an investment yield of not less than the yield obtainable from other investments authorized by this section. Debentures so purchased shall be canceled and not reissued, and the several group accounts to which such debentures have been charged shall be charged with the amounts used in making such purchases."

SEC. 22. Section 207 of title II is hereby amended to read as follows:

"RENTAL HOUSING INSURANCE

"SEC. 207. (a) As used in this section—

"(1) The term 'mortgage' means a first mortgage on real estate in fee simple, or on the interest of either the lessor or lessee thereof (1) under a lease for not less than ninety-nine years which is renewable or (2) under a lease having a period of not less than fifty years to run from the date the mortgage was executed, upon which there is located or upon which there is to be constructed a building or buildings designed principally for residential use, and the term 'first mortgage' means such classes of first liens as are commonly given to secure advances (including but not being limited to advances during construction) on or the unpaid purchase price of real estate under the laws of the State, district, or territory in which the real estate is located, together with the credit instrument or instruments, if any, secured thereby, and may be in the form of trust mortgages or mortgage indentures or deeds of trust securing notes, bonds, or other credit instruments.

"(2) The term 'mortgagee' means the original lender under a mortgage, and its successors and assigns, and includes the holders of credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and through a trustee therein named.

"(3) The term 'mortgagor' means the original borrower under a mortgage and its successors and assigns.

"(4) The term 'maturity date' means the date on which the mortgage would mature if paid in accordance with the periodic payments provided for therein.

"(5) The term 'slum or blighted area' means any area where dwellings predominate which, by reason of dilapidation, overcrowding, faulty arrangement or design, lack of ventilation, light or sanitation facilities, or any combination of these factors, are detrimental to safety, health, or morals.

"(6) The term 'rental housing' means housing the occupancy of which is permitted by the owner thereof in consideration of the payment of agreed charges, whether or not, by the terms of the agreement, such payment over a period of time will entitle the occupant to the ownership of the premises.

"(b) In addition to mortgages insured under section 203 the Administrator is authorized to insure mortgages as defined in this section, which shall include advances thereon during construction, which shall cover property held by—

"(1) Federal or State instrumentalities, municipal corporate instrumentalities of one or more States, or limited dividend corporations formed under and restricted by Federal or State housing laws as to rents, charges, capital structure, rate of return, or methods of operation; or

"(2) private corporations, associations, or trusts formed or created for the purpose of (a) rehabilitating slum or blighted areas, or (b) providing housing for rent or sale, and possessing powers necessary therefor and incidental thereto, and which corporations, associations, or trusts, until the termination of all obligations of the Administrator under such insurance, are regulated or restricted by the Administrator as to rents or sales, charges, capital structure, rate of return, and methods of operation to such extent and in such manner as to protect the housing fund hereinafter created. The Administrator may make such contracts with, and acquire for not to exceed $100 such stock in, any such corporation, association, or trust as he may deem necessary to render effective such restriction or regulation. Such stock shall be paid for out of such housing fund, and shall be redeemed by the corporation, association, or trust as par upon the termination of all obligations of the Administrator under the insurance.

"To be eligible for insurance under this section a mortgage on any property or project shall involve a principal obligation not to exceed $5,000,000 and not (except as to mortgages on property of mortgagors mentioned in paragraph (1) of this subsection) to exceed 80 per centum of the amount which the Administrator estimates will be the value of the property or project when the proposed improvements are completed, and such part thereof as may be attributable to dwelling use shall not exceed $1,200 per room, and the mortgage shall provide for complete amortization by periodic payments within such term as the Administrator shall prescribe. The Administrator may consent to the release of a part or parts of the mortgaged property from the lien of the mortgage upon such terms and conditions as he may prescribe and the mortgage may provide for such release. No mortgage shall be accepted for insurance under this section unless the Administrator finds that the relation of the property or project to its immediate environment and to the entire community in which it is to be located; suitability of the site; suitability of the site plan and building plans; the relation between the principal amount of the mortgage and the value of the property or project; the relation between debt requirements and estimated earning capacity of the property or project; and the sufficiency and character of the proposed equity are such that the property or project, with respect to which the mortgage is executed, is economically sound.

"(c) The Administrator shall collect a premium charge for the insurance of mortgages under this section which shall be payable annually in advance by the mortgagee in cash or in debentures issued by the Administrator under this title at par plus accrued interest and which premium charge shall be in such an amount as the Administrator shall prescribe. In addition to the premium charge herein provided for, the Administrator is authorized to charge and collect such amounts as he may deem reasonable for the appraisal of a property or project offered for insurance and for the inspection of such property or project during construction: *Provided*, That such charges for appraisal and inspection shall not aggregate more than one-half of 1 per centum of the original principal face amount of the mortgage.

"(d) In the event that the principal obligation of any mortgage accepted for insurance under this section is paid in full prior to the maturity date specified in the mortgage, the Administrator is authorized in his discretion to require the payment by the mortgagee of a premium charge in such amount as the Administrator determines to be equitable, but not in excess of the aggregate amount of the premium charges that the mortgagee would otherwise have been required to pay if the mortgage had continued to be insured until such maturity date.

"(e) There is hereby created a housing insurance fund (herein referred to as the 'housing fund') which shall be used by the Administrator as a revolving fund for carrying out the provisions of this section and section 210 as herein and in said section 210 provided, and the Administrator is hereby directed to transfer immediately to such housing fund the sum of $1,000,000 from the fund now held by him arising from appraisal fees heretofore collected by him. General expenses of operations of the Federal Housing Administration under this section and section 210 may be charged to the housing fund.

"(f) The failure of the mortgagor to make any payment due under or provided to be paid by the terms of such mortgage shall be considered a default under such mortgage and, if such default continues for a period of thirty days, the mortgagee shall be entitled to receive the benefits of the insurance as hereinafter provided, upon assignment, transfer, and delivery to the Administrator, within a period and in accordance with rules and regulations to be prescribed by the Administrator of (1) all rights and interests arising under the mortgage so in default; (2) all claims of the mortgagee against the mortgagor or others, arising out of the mortgage transaction; (3) all policies of title or other insurance or surety bonds or other guaranties and any and all claims thereunder; (4) any balance of the mortgage loan not advanced to the mortgagor; (5) any cash or property held by the mortgagee or to which it is entitled, as deposits made for the account of the mortgagor and which have not been applied in reduction of the principal of the mortgage indebtedness; and (6) all records, documents, books, papers, and accounts relating to the mortgage transaction. Upon such assignment, transfer, and delivery the obligation of the mortgagee to pay the premium charges for mortgage insurance shall cease, and the Administrator shall, subject to the adjustment provided for in subparagraph (h), issue to the mortgagee debentures having a total face value equal to the original principal face amount of the mortgage plus such amount as the mortgagee may have paid for (1) taxes, special assessments, and water rates, which are liens prior to the mortgage; (2) insurance on the property; and (3) reasonable expenses for the preservation of the property, less such principal amount as has been repaid by the mortgagor and any net income received by the mortgagee from the property as of the date of such assignment, transfer, and delivery.

"(g) Debentures issued under this section shall be executed in the name of the housing fund as obligor and signed by the Administrator, by either his written or engraved signature, and shall be negotiable. They shall bear interest at a rate determined by the Administrator at the time the mortgage was insured, but not to exceed 3 per centum per annum payable semiannually on the 1st day of January and the 1st day of July of each year, and shall mature three years after the 1st day of July following the maturity date of the mortgage in exchange for which the debentures were issued. Such debentures as are issued in exchange for property covered by mortgages insured after the effective date of this amendment shall not be exempt from taxation, shall be paid out of the housing fund which shall be primarily liable therefor, and shall be fully and unconditionally guaranteed as to principal and interest by the United States and such guaranty shall be expressed on the face of the debentures. In the event the housing fund fails to pay upon demand, when due, the principal of or interest on any debentures so guaranteed, the Secretary of the Treasury shall pay to the holders the amount thereof which is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, and thereupon, to the extent of the amount so paid, the Secretary of the Treasury shall succeed to all the rights of the holders of such debentures. Mortgagees of mortgages accepted for insurance prior to this amendment shall be entitled to receive cash adjustments and debentures issued in accordance with this section 207 as hereby amended.

"(h) Debentures issued under this section shall be in such form and denominations in multiples of $50 and subject to such terms and conditions and shall include such provision for redemption, if any, as may be prescribed by the Administrator with the approval of the Secretary of the Treasury, and may be in coupon or registered form. Any difference between the amount of debentures to which the mortgagee is entitled under this section, and the aggregate face value of the debentures issued, not to exceed $50, shall be adjusted by the payment by the Administrator of cash from the housing fund.

"(i) The Administrator is herby authorized either to (1) acquire possession of and title to any property, covered by a mortgage insured under this section and assigned to him, by voluntary conveyance in extinguishment of the mortgage indebtedness, or (2) institute proceedings for the foreclosure of such a mortgage and prosecute such proceedings to conclusion. The Administrator shall so acquire possession of and title to the property by voluntary conveyance or institute foreclosure proceedings as provided in this section within one year from the date on which any such mortgage becomes in default under its terms or under the regulations prescribed by the Administrator: *Provided*, That the foregoing shall not be construed in any manner to limit the power of the Administrator to foreclose after the expiration of such period, or the right of the mortgagor to reinstate the mortgage by the payment, prior to the expiration of such period, of all delinquencies thereunder. The Administrator at any sale under foreclosure may, in his discretion, for the protection of the housing fund, bid any sum up to but not in excess of the total unpaid indebtedness secured by the mortgage, plus taxes, insurance, foreclosure costs, fees, and other expenses, and may become the purchaser of the property at such sale. The Administrator is authorized to pay from the housing fund such sums as may be necessary to defray such taxes, insurance, costs, fees,

and other expenses in connection with the acquisition or foreclosure of property under this section. Pending such acquisition by voluntary conveyance or by foreclosure, the Administrator is authorized, with respect to any mortgage assigned to him under the provisions of subsection (f), to exercise all the rights of a mortgagee under such mortgage and to take any action and advance such sums as may be necessary to preserve or protect the lien of such mortgage.

"(j) Notwithstanding any other provisions of law relating to the acquisition, handling, or disposal of real and other property by the United States, the Administrator shall also have power, for the protection of the interests of the housing fund, to pay out of the housing fund all expenses or charges in connection with, and to deal with, complete, reconstruct, rent, renovate, modernize, insure, make contracts for the management of, or establish suitable agencies for the management of, or sell for cash or credit or lease in his discretion, any property acquired by him under this section; and notwithstanding any other provision of law, the Administrator shall also have power to pursue to final collection by way of compromise or otherwise all claims assigned and transferred to him in connection with the assignment, transfer, and/or delivery provided for in this section, and at any time, upon default, to foreclose any mortgage assigned and transferred to or held by him: *Provided*, That section 3709 of the Revised Statutes shall not be construed to apply to any purchase or service on account of such property.

"(k) Premium charges, appraisal and other fees, received for the insurance of any mortgage insured under this section or section 210, the receipts derived from any such mortgage or claim assigned to the Administrator and from any property acquired by the Administrator and all earnings on the assets of the housing fund shall be credited to the housing fund. The principal of and interest paid and to be paid on debentures issued in exchange for any mortgage or property insured under this section or section 210, cash adjustments, and expenses incurred in the handling of such mortgages or property and in the foreclosure and collection of mortgages and claims assigned to the Administrator shall be charged to the housing fund.

"(l) In the event that a mortgage insured under this section becomes in default through failure of the mortgagor to make any payment due under or provided to be paid by the terms of the mortgage and such mortgage continues in default for a period of thirty days, but the mortgagee does not assign and transfer such mortgage, and the credit instrument secured thereby, to the Administrator in accordance with subsection (f), or in the event that the mortgagor pays the obligation under the mortgage in full prior to the maturity thereof and written notice thereof is given to the Administrator, or in the event the mortgagee shall create or sell partial interests therein except upon such conditions and restrictions as the Administrator shall prescribe, the obligation to pay the annual mortgage insurance premium shall cease, and all rights of the mortgagee under this section shall likewise terminate.

"(m) Moneys in the housing fund not needed for current operations of this section and section 210 shall be deposited with the Treasurer of the United States to the credit of the housing fund, or invested in bonds or other obligations of, or guarantee as to principal and interest by, the United States. The Administrator may, with the approval of the Secretary of the Treasury, purchase, in the open market, debentures issued under this section and section 210. Such purchases shall be made at a price which will provide an investment yield of not less than the yield obtainable from other investments authorized by this subsection. Debentures so purchased shall be canceled and not reissued.

"(n) The Administrator, with the consent of the mortgagee and the mortgagor of a mortgage heretofore insured under section 207 of the National Housing Act, shall be empowered to reissue such mortgage insurance in accordance with the provisions of this amended section 207.

"(o) The Administrator is authorized and directed to make such rules and regulations as may be necessary to carry out the provisions of this section."

SEC. 23. Section 208 of title II is amended by striking out the word "subdivision" and inserting in lieu thereof the word "subdivision".

SEC. 24. Section 209 of title II is amended by striking out the last sentence of said section and inserting in lieu thereof the following: "Expenses of such studies and surveys, and expenses of publication and distribution of results of such studies and surveys, shall be charged as a general expense of the fund and the housing fund in such proportion as the Administrator shall determine."

SEC. 25. Title II is amended by adding at the end thereof a new section numbered 210 as follows:

"SEC. 210. (a) In addition to mortgages insured under sections 203 and 207 the Administrator is authorized to insure mortgages as defined in section 207 (a) including advances thereon during construction, covering property upon which there is to be constructed one or more multifamily dwellings or a group of not less than twenty-five single-family dwellings: *Provided*, That the property shall have been approved for mortgage insurance prior to the beginning of construction.

"(b) To be eligible for insurance under this section a mortgage must—

"(1) Involve a principal obligation (including such initial service charges, appraisal, inspection and other fees, as the Administrator shall approve) in an amount in excess of $16,000 but not in excess of $200,000, not in excess of 80 per centum of the amount which the Administrator estimates will be the value of the property when the proposed improvements are completed, and such part thereof as may be attributable to dwelling use shall not exceed $1,000 per room.

"(2) Have a maturity satisfactory to the Administrator, but not to exceed twenty years and contain complete amortization provisions satisfactory to the Administrator.

"(3) Contain such terms, conditions, and provisions with respect to interest, advances during construction, assurance of completion, recognition of equitable rights of contract purchasers in good standing, release of part of the mortgaged premises from the lien of the mortgage, insurance, repairs, alterations, payment of taxes, default and management reserves, delinquency charges, foreclosure proceedings, anticipation of maturity, additional and secondary liens, and other matters as the Administrator may in his discretion prescribe.

"(c) The Administrator shall collect a premium charge for the insurance of mortgages under this section which shall be payable annually in advance by the mortgagee in cash or in debentures issued by the Administrator under this title at par plus accrued interest, and which premium charge shall be in such an amount as the Administrator shall prescribe. In addition to the premium charge herein provided for, the Administrator is authorized to charge and collect such amounts as he may deem reasonable for the appraisal of a property or project offered for insurance and for the inspection of such property or project during construction, provided that such charges for appraisal and inspection shall not aggregate more than one-half of 1 per centum of the original face amount of the mortgage. The provisions of the last sentence of section 203 (c), as amended, shall be applicable to mortgages insured under this section. No mortgage shall be accepted for insurance under this section unless the Administrator finds that the relation of the project to its immediate environment and to the entire community in which it is located, the suitability of the site, and the site and building plans ,the relation between the debt-service requirements and the estimated earning capacity of the project, the relation between the principal amount of the mortgage and the value of the property, and the sufficiency and character of the proposed equity, are such as to make the project economically sound.

"(d) The provisions of section 204 shall be applicable to mortgages insured under this section, except that the debentures issued hereunder shall be the primary liability of the housing fund created under section 207 (e) and shall be paid out of said housing fund. They shall be guaranteed by the United States as provided in section 204. The provisions of section 205 shall not be applicable to such mortgages.

"(e) In the event that any mortgagee under a mortgage insured under this section shall create or sell partial interests therein, except upon such conditions and restrictions as the Administrator shall determine, or forecloses on the mortgaged property but does not convey such property to the Administrator in accordance with section 204, or in the event the mortgager pays the obligation under the mortgage in full prior to maturity thereof and the Administrator is given due notice of such payment, the obligation to pay the annual premium charge for insurance shall cease and all rights of the mortgagee and the mortgagor under section 204 shall terminate.

"(f) The Administrator is authorized and directed to make such rules and regulations as may be necessary to carry out the provisions of this section."

SEC. 26. Section 301 (a) of title III is amended to read as follows:

"SEC. 301. (a) The Administrator is further authorized and empowered to provide for the establishment of national mortgage associations as hereinafter provided which shall be authorized, subject to rules and regulations to be prescribed by the Administrator, (1) to purchase, service, and sell first mortgages and such other first liens as are commonly given to secure advances on real estate held in fee simple or under a lease for not less than ninety-nine years, under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby, such mortgages not to exceed 80 per centum of the appraised value of the property as of the date the mortgage is purchased,

and to make loans and advances upon, and to purchase, service, and sell mortgages or partial interests therein which are insured under section 207 of this Act; (2) to borrow money for such purposes through the issuance of notes, bonds, debentures, or other such obligations as hereinafter provided."

SEC. 27. Section 301 (d) of title II of said Act is amended by striking out in the last sentence of said section the words "paid in full in cash or Government securities at their par value" and inserting in lieu thereof the following: "that at least 25 per centum thereof has been paid in cash or Government securities at their par value or first mortgages, or such other first liens, as are described in section 301 (a) hereof, which mortgages or liens shall be taken at such value as the Administrator may determine not exceeding 80 per centum of the appraised value of the property as of the date of subscription, and that the remainder is payable at such time as may be determined by the Administrator: *Provided*, That no association shall issue notes, bonds, debentures, or other such obligations until such time as such subscriptions are paid in full in cash or Government securities at their par value or mortgages or other liens as hereinbefore set forth."

SEC. 28. Section 302 of title III of said Act is amended to read as follows:

"SEC. 302. Each national mortgage association is authorized to issue and have outstanding at any time notes, bonds, debentures, or other such obligations in an aggregate amount not to exceed (1) twenty times the amount of its paid-up capital and surplus, and in no event to exceed (2) the current unpaid principal mortgages held by it and insured under the provisions of title II of this Act, plus the amount of its cash on hand and on deposit and the amortized value of its investments in bonds or obligations of, or guaranteed as to principal and interest by, the United States. No national mortgage association shall borrow money otherwise than through the issuance of such notes, bonds, debentures, or other obligations, except with the approval of the Administrator and under such rules and regulations as he shall prescribe. An association may, if its bylaws so provide, accept any notes, bonds, debentures, or other obligations issued by it in payment of obligations due it at par plus accrued interest: *Provided*, That such notes, bonds, debentures, or other obligations so accepted shall be canceled and not reissued."

SEC. 29. Section 307 of title III is amended to read as follows:

"All notes, bonds, debentures, or other obligations issued by any national mortgage association shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by any State, county, municipality, or local taxing authority. Every national mortgage association, including its franchise, capital, reserves, surplus, mortgage loans, income, and stock, shall be exempt from taxation now or hereafter imposed by any State, county, municipality, or local taxing authority. Nothing herein shall be construed to exempt the real property of such association from taxation by any State, county, municipality, or local taxing authority to the same extent according to its value as other real property is taxed."

SEC. 30. Section 512 (a) of title V is amended to read as follows:

"SEC. 512. (a) Whoever, for the purpose of obtaining any loan or advance of credit from any person, partnership, association, or corporation with the intent that such loan or advance of credit shall be offered to or accepted by the Federal Housing Administration for insurance, or for the purpose of obtaining any extension or renewal of any loan, advance of credit, or mortgage insured by the said Administration, or the acceptance, release, or substitution of any security on such a loan, advance of credit, or for the purpose of influencing in any way the action of the said Administration under this Act, makes, passes, utters, or publishes, or causes to be made, passed, uttered, or published any statement, knowing the same to be false, or alters, forges, or counterfeits, or causes or procures to be altered, forged, or counterfeited, any instrument, paper, or document, or utters, publishes, or passes as true, or causes to be uttered, published, or passed as true, any instrument, paper, or document, knowing it to have been altered, forged, or counterfeited, or willfully overvalues any security, asset, or income, shall be punished by a fine of not more than $3,000 or by imprisonment for not more than two years, or both."

SEC. 31. Section 512 of title V is amended by adding at the end thereof an additional subsection to be known as (d) as follows:

"(d) No individual, association, partnership, or corporation shall hereafter, while the Federal Housing Administration exists, use the words 'Federal Housing' or 'National Housing', or any combination or variation of any of these words, alone or with other words, as the name under which he or it shall do business, which shall have the effect of leading the public to believe that any such individual, association, partnership, or corporation has any connection with, or authorization from, the Federal Housing Administration, the Government of the United States, or any instrumentality thereof, where such connection or authorization does not, in fact, exist. No individual, association, partnership, or corporation shall falsely advertise, or otherwise represent falsely by any device whatsoever, that any project or business in which he or it is engaged, or product which he or it manufactures, deals in, or sells, has been in any way endorsed, authorized, or approved by the Federal Housing Administration, or by the Government of the United States, or by any instrumentality thereof. Every violation of this subsection shall be punished by a fine not exceeding $1,000 or by imprisonment not exceeding one year, or both."

SEC. 32. Title V of the National Housing Act is amended by adding after section 513 the following new section:

"SECTION 514. The provisions of section 10 (a) 1 and 10b of the Federal Home Loan Bank Act, as amended (49 Stats. 294, 295); paragraph seventh of section 5136 of the Revised Statutes, as amended (49 Stats. 709); section 24 of the Federal Reserve Act, as amended (49 Stats. 706); subsection (n) of section 77B of the Bankruptcy Act, as amended (49 Stats. 664); section 5 (c) of the Act approved January 31, 1935, continuing and extending the functions of the Reconstruction Finance Corporation (49 Stats. 1); and all other provisions of law establishing rights under mortgages insured in accordance with the provisions of the National Housing Act, shall be held to apply to said National Housing Act as heretofore and hereby amended as fully as if enacted after the date of the approval of such amendments."

SEC. 33. Section 35 of the Act of June 19, 1934, to regulate the business of life insurance in the District of Columbia, and entitled the "Life Insurance Act", is amended by inserting after subsection 3 and before subsection 4 of said section the following new section to be known as subsection 3 (a) and to read as follows:

"3. (a) Bonds or notes secured by mortgages or deeds of trust insured by the Federal Housing Administrator: The restrictions in subsection 3 of this section in regard to the ratio of the loan to the value of the property shall not apply to such insured mortgages."

SEC. 34. Said section 35 of said Act of June 19, 1934, is further amended by amending subsection 4 to read as follows:

"4. Bonds or other evidences of indebtedness of the farm loan banks authorized under the Federal Farm Loan Act or Acts amendatory thereof or supplementary thereto, and bonds or other evidences of indebtedness of national mortgage associations."

SEC. 35. Subsection (a) of section 2 of title I, as amended, is further amended by striking out the words "April 1, 1936, and prior to April 1, 1937" appearing in the first sentence of said subsection and inserting in lieu thereof the words "the date of the enactment of this Act and prior to July 1, 1939", by striking out the words "and the purchase and installation of equipment and machinery upon such real property," and by striking out the last two sentences of said section and inserting in lieu thereof the following: "In no case shall the insurance granted by the Administrator under this section to any such financial institution on loans, advances of credit, and purchases made by such financial institution for such purposes on and after the date of the enactment of this Act exceed 10 per centum of the total amount of such loans, advances of credit, and purchases. The total liability which may be outstanding at any time in respect of all insurance heretofore and hereafter granted under this section and section 6 shall not exceed in the aggregate $100,000,000."

SEC. 36. Subsection (b) of section 2, title I, as amended, is further amended to read as follows:

"(b) No insurance shall be granted under this section to any such financial institution with respect to any obligation representing any such loan, advance of credit, or purchase by it, the face amount of which exceeds $10,000, nor unless the obligation bears such interest, has such maturity, and contains such other terms, conditions, and restrictions as the Administrator shall prescribe in order to make credit available for the purposes of this title."

SEC. 37. Section 5136 of the Revised Statutes, as amended, is further amended as follows:

The last sentence of paragraph seventh of such section is amended by inserting before the colon after the words "guaranteed as to principal and interest by the United States" a comma and the following: "or obligations of national mortgage associations".

The CHAIRMAN. I have invited Mr. McDonald, Federal Housing Administrator, to appear before the committee and discuss the bill this morning and Mr. McDonald will now be recognized.

STATEMENT OF STEWART McDONALD, FEDERAL HOUSING ADMINISTRATOR

Mr. McDONALD. Mr. Chairman and gentlemen: I have before me an explanation of the bill and then a summary of the bill which has been mimeographed and will be in your hands very shortly. I will read you the explanation with my recommendations about it.

The amendments which are intended either to clarify the language of the present act or to correct deficiencies in the act which have become apparent during the period it has been administered, are covered in this explanation. None of the amendments of this character in any way broaden the operations under the original act. These are sections 2, 3, 4, 6, 8, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 23, 24, 30, 31, 32, 33, and 34, for which our General Counsel will give you his opinions, reasons, and suggestions for making the changes. Some of the amendments amount to almost nothing. Some are a question of administration. Others have been brought up by counsel for the large life-insurance companies who invest in these mortgages and who have questioned the interpretation of certain wording. One of the amendments has to do with a misspelled word. As I say, those many sections cover purely legal questions and I suggest that you have our General Counsel explain the reasons for his recommendations.

The amendments which have to do with the questions of policy and those which are suggested in the message of the President sent to Congress on November 29, 1937, are proposed to sections 5, 7, 9, 11, 22, 25, 26, 27, 28, 29, 35, 36, and 37, which I shall briefly summarize as follows:

1. Reduce the required down payment to 10 from 20 percent on houses up to $6,000: The reason for this recommendation is to stimulate construction of small houses which are owner-occupied. They must be built before July 1, 1939, and may be purchased with a down payment of as low as 10 percent, if necessary. It is believed that this small down payment coupled with a low interest rate would encourage small home owners. We in the Administration think that the interest rate could be 5 percent, including the service charge, and with an insurance premium of one-fourth of 1 percent the total cost to the owner would be 5¼ percent.

2. Clarify section 207 which is the large-scale housing section so as to eliminate the implied obligations that these must be quasi slum clearance projects: There are two in nearby Virginia—Colonial Village and Buckingham, and at the foot of Sixteenth Street is Falkland Properties.

The reason for the recommendation is that the present wording in the act leaves the impression—particularly in the minds of a great many lawyers—that these large-scale rental projects must be built for people of low income. For example, the general counsel of the John Hancock Life Insurance Co. refused to allow that organization to participate in the program because it was not clear to him whether or not the law applied to people of low income. I think the Bowery Savings Bank has also criticized that clause and has pointed out that it places limitation of so much per room upon the mortgage which may be insured. It is recommended that a limitation of $1,200 per room be placed on the permissible amount of the mortgage instead of trying to interpret the phrase "persons of low income." Even that amount is debatable. We, ourselves, have questioned whether it is high enough and should like very much to be guided by your judgment in the matter.

3. Make it possible for mortgagees under section 207 to secure their debentures upon assignment of the mortgage instead of waiting for formal foreclosure proceedings: In many States it takes a long time to foreclose a mortgage—notably Illinois and New York. With reference to the smaller homes it can be very easily stipulated that the holder of the mortgage must foreclose on the property before passing it to the Federal Housing Administration. That does not apply to large-scale properties. On the smaller houses, the Government simply did not want to be in the position of foreclosing the homes of its own people, but there should be no such compunctions againt foreclosure on large corporations, since it is in our interest and the interest of the tenants to obtain possession at the earliest possible date if there is any default. Up to the present time there has been none.

4. Change section 207 so as to make it possible for the developer to build a group of houses for sale, but rent portions of them in the meantime, selling them off one by one, if he so desires. In other words, instead of building a tremendous apartment house, he can build a series of individual houses and rent them and if the occasion demands or he desires he can sell them as he pleases.

5. Modify amendments introduced in Congress at the close of the last session, whereby F. H. A. is authorized to insure mortgages on multifamily rental housing projects and groups of individual houses for sale, the insurance to be effective during construction and to apply to advances made during construction. The mortgages on these projects would be not less than $16,000, the present maximum under the individual home program, and not over $200,000. These properties would not necessarily have to be owned by a limited-dividend corporation. Again, the question of a thousand dollars a room as the limit of the mortgage is a debatable one, and we question whether that is not too low to be of any effective service. However, we do believe it wise to put in some figure and we again ask your advice on that.

6. Clarification of title III. The section of the National Housing Administration Act which provides for the formation of national mortgage associations—none have been formed to date—so that the ratio of debentures may be 20 times their capital surplus instead of 12 as now provided, and permit these national mortgage associations to initiate loans to only section 207 loans. That is, they would not be allowed to initiate a loan of any individual house or even on an apartment covered under section 210 up to $200,000. They could only originate a loan on the very large rental projects. This amendment also would exempt the associations and their bonds from state taxation.

I might add we have had considerable pressure put on us to know why the mortgages and bonds should not be exempt from Federal taxation as they come in direct competition with the tax exempt bonds of the Federal home-loan bank and other Federal agencies.

The CHAIRMAN. In that connection, there would be this difference, if I understand. In this latter case you have unrestricted application of the service to be rendered whereas under the other two plans the service is limited to home construction and home purposes.

Mr. McDONALD. Except the farms. The farm loans are also exempted from taxation. That is a thing we have not put in here as mandatory, but we have requested that the bonds be exempted from State taxation for the reason that in a great many States the obligations of a mortgage association are taxed identically as the mortgage which they represent would be. In other words, if you hold a debenture in some States you would be taxed just the same on that debenture as though you held a $5,000 mortgage, and in some States that runs very high, but inasmuch as it is expected to sell these debentures at a very low rate to facilitate the flow of money we thought it desirable to exclude them from as many additional encumbrances as we possibly could.

The CHAIRMAN. Just what character of loan may be made by a mortgage association under this act?

Mr. McDONALD. They could originate a loan on a large-scale rental property. They could purchase any insured mortgage. They could sell debentures based upon the insured mortgages which they hold in their portfolios. For instance, if a mortgage association were formed with private capital for 2, 3, 4, or 5 million dollars, it would be allowed to sell 20 times the amount of that capital, provided that back of the debentures it sold there were insured mortgages on individual homes or apartment houses or something else as counter-security.

The CHAIRMAN. What type of large properties do you refer to?

Mr. McDONALD. We would initiate a loan on the type of property such as you see at the foot of Sixteenth Street. Have you one of those photographs there? That is insured under section 207. For example, I can cite the project at the foot of Sixteenth Street covered by a mortgage of nearly two million and a half—a two million and a half live mortgage loan—which at the present time, the Union Central Life Insurance Co. holds. They did not have it originally. In lieu of the mortgage association, we asked the RFC Mortgage Co. to back the project, and after it was well under way the Union Central Life Insurance Co. and some other life insurance company came in, examined it, found it a good loan, and took it over.

Now, we want the national mortgage associations to initiate loans only under section 207.

Mr. HANCOCK. The assets of the National Mortgage Association would consist of cash, bonds, and insured mortgages; is that correct?

Mr. McDONALD. The original capital or assets. The original capital may be in money. It may be a good mortgage, or cash, or government bonds, but they can only issue debentures against insured mortgages. As for the original capital, if we are willing to accept first mortgages on any first-class property, it would be satisfactory.

Mr. GIFFORD. Are those debentures guaranteed?

Mr. McDONALD. No, sir; they are not, Mr. Congressman, but they are based on F. H. A. mortgages which are guaranteed.

Mr. GIFFORD. It would be possible to exchange those debentures, if there was a slow sale for them.

Mr. McDONALD. I beg your pardon, I did not understand.

Mr. GIFFORD. It would be possible to change those debentures the same as has been done on the farm land bank bonds, were they not exchanged for something that could be sold and something that you could get the money for?

Mr. McDONALD. Well, perhaps.

Mr. GIFFORD. That has been done?

Mr. McDONALD. I do not believe I am in position to answer that.

Mr. GIFFORD. These debentures are not guaranteed?

Mr. McDONALD. No; the debentures of the National Mortgage Association are not guaranteed.

Mr. GIFFORD. Suppose they do not meet with ready sale, can they exchange for other bonds?

Mr. McDONALD. You know, Mr. Congressman, the National Mortgage Association is not a Government agency and therefore it would be in no position to exchange its debentures for anything else. If they could not sell them, they just could not sell them.

Mr. GIFFORD. You recognize from my question that has been done with Government agencies?

Mr. McDONALD. Yes; I believe it has.

Mr. GIFFORD. I know it has.

Mr. WOLCOTT. You said mortgages were guaranteed. Are they guaranteed or insured?

Mr. McDONALD. You are correct. They are insured by the Federal Housing Administration, which first has the sufficiency of its insurance fund and back of that the value of the property itself, and in the event of failure of both the guaranty of the Treasury applies.

Mr. WOLCOTT. I merely wanted to keep the record straight.

Mr. McKEOUGH. Might not the guaranty be limited to 80 percent? They are guaranteed only up to 80 percent?

Mr. McDONALD. No; insured only 80 percent.

Mr. McKEOUGH. That is not 100 percent?

Mr. McDONALD. Well, the mortgage only represents 80 percent, so the mortgage is fully insured.

Mr. WILLIAMS. The mortgage itself is insured 100 percent?

Mr. CRAWFORD. Mr. Chairman?

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. McDonald, did I understand you to say the National Mortgage Association can originate loans on large-scale projects?

Mr. McDONALD. Yes.

Mr. CRAWFORD. And they can also purchase mortgages?

Mr. McDONALD. Any insured mortgage.

Mr. CRAWFORD. Even on a $6,000 home?

Mr. McDONALD. Yes; on a $3,000 home.

Mr. CRAWFORD. Now as a lending agency it may issue debentures against insured mortgages?

Mr. McDONALD. As a mortgage association.

Mr. CRAWFORD. As a lending agency, can they sell to the National Mortgage Association?

Mr. McDONALD. Oh, yes. You mean a bank making a mortgage on a house?

Mr. CRAWFORD. Can a national mortgage association sell any of its paper to the Federal Housing Administration and thereby acquire Federal Housing Administration debentures or guaranteed bonds?

Mr. McDonald. We have no guaranteed bonds to issue. The only instrument that we issue is a Federal Housing Administration debenture which is issued for a foreclosed mortgage.

Mr. Crawford. I understood you to say those were guaranteed by the Government?

Mr. McDonald. As the Congressman stated they are guaranteed by the insurance which in turn is the Government guaranty.

Mr. Crawford. That can work back into the National Mortgage Association?

Mr. McDonald. Yes; as I pointed out, if we should have a debacle in which the mortgages would be bad and go in default, a mortgage association would wind up with the F. H. A. debentures instead of the mortgages and the F. H. A. would have the property which we would have to sell.

Mr. Crawford. F. H. A. would therefore redeem the National Mortgage Association?

Mr. McDonald. That is right.

Mr. Crawford. And the F. H. A. being a Government agency would hold the property?

Mr. McDonald. Would hold the property which would have to be disposed of at a profit or loss, as we are doing right now.

7. Change the limitations on the amount of mortgages which may be insured so as to provide that $2,000,000,000 shall apply to outstanding insurance at any time rather than the flat limitation of two billion as it now stands; and, simultaneously, eliminate the July 1, 1939 date as the limitation of the Government's guarantee of debentures.

Mr. Williams. Right there is something I do not understand. This $2,000,000,000 you say the flat limitation——

Mr. McDonald (interposing). Mr. Congressman, if you will recall the original act reads something like this, that the Government will unconditionally guarantee a billion dollars' worth of new construction and a billion dollars' worth of old construction and only on such mortgages as are written prior to July 1, 1939. It was originally written July 1, 1937, and you gentlemen extended it to July 1, 1939.

Mr. Williams. What does this cut it?

Mr. McDonald. It consolidates the two and creates a revolving fund and says you must perpetually guarantee it.

Mr. Williams. Regardless of when issued?

Mr. McDonald. Regardless of when issued. In other words, if the Government is standing back of two billion of F. H. A. mortgages at all times, additional liability may be taken on.

Mr. Williams. That is, you always have outstanding two billion?

Mr. McDonald. We may have two billion outstanding.

Mr. Williams. But no more?

Mr. McDonald. But no more. We may have. As a matter of fact we are obligated today for slightly over a billion.

Mr. McKeough. What proportion of that represents modernization?

Mr. McDonald. That is exclusive of modernization. The modernization is not covered in the mortgage insurance clause. We had insured $560,000,000 worth of modernization notes. That sum has been paid to date down to about $212,000,000 which is the total liability outstanding. It is very difficult to get an exact figure but we think it is between two hundred and two hundred and fifty million.

Mr. McKeough. That is, what proportion is applicable to new financing and old financing?

Mr. McDonald. We desire to eliminate that. After July 1, 1939, the F. H. A. will drop out of existing construction, except houses which it has previously insured and of which it may be in possession or have to accept after foreclosure, for then we would not again be in the position of selling property with F. H. A. insurance or any house built since 1934—in fact, mighty few were built in 1934, 1935, or 1936—so from a factual point of view this provision limits F. H. A. activities after July 1, 1939, to entirely new construction.

8. The next clause comes about because of the pressure we have had put upon us, both outside and inside of Washington, the reopening of title I, which is the modernization and repair feature which the Congressman referred to, but with a maximum $10,000 loan and only for the purposes of modernization, alteration, or repair and not to include in any way, shape, or form removable fixtures.

It is felt by a great many that this amendment will have a pronounced effect in stimulating reemployment, as title I was very popular during the years it was in effect and undoubtedly did a great deal of good. By limiting it now to repairs to structures and buildings it is felt that a great many mechanics would be worthily employed and that the material and building industries would be aided.

Mr. Williams. What is the total limitation?

Mr. McDonald. $10,000 for any one loan.

Mr. Williams. What is the total limitation of funds for that purpose?

Mr. McDonald. None whatsoever, but the amount of insurance would be restricted to 10 percent. The first year was 20 percent.

Mr. Williams. The limitation was $2,000 under the original act?

Mr. McDonald. Yes; and that was increased to $50,000 for industrial and business properties, but as a matter of fact our average loan was around $270. We had very few loans over $2,000. We issued a regulation which required a man to submit before previous acceptance any loan over $5,000 and we scrutinized the credit in such cases very carefully.

Mr. Williams. You did have a limitation on the entire amount?

Mr. McDonald. Yes; there was a limitation of $200,000,000 and in 1936 Congress cut that to $100,000,000 and the total sum that could be loaned on insured modernization and repair notes—one moment. I believe I have the figures right here, while you are on the subject.

Here is the analysis, a total of 1,449,373 insured notes or loans, of that 1,449,373 loans the national banks made 770,235; State banks and trust companies made 352,842; finance companies, 215,313; industrial banks 91,178; building and loan associations, 8,172; savings banks, 10,290; credit unions, 793; and all others 550, making a total of $560,751,206.

Now we have paid to date on that $100,000,000 which would reduce the sum to an item of $12,674,642 paid out in claims of that amount.

The procedure is, the bank or any institution submitting the claim to us, we pay it and they pass us the defaulted notes and what residue there is to it and we make a further attempt at collection. We have paid out this claim of $12,674,642 which they claimed they could not make any more collections on and we took them and have collected

$1,093,000 in cash, repossessed property and again sold it for $60,000, making $1,153,567.86.

We have accumulated and collected other items amounting to $2,226,000 which we have turned over to the Government and which they have used again. We have also reinstated of those bad notes $2,796,000 by asking the man to resume payment on it, and so forth, and so on, stretching it out longer, so our settlements of all kinds have been $6,176,000 against the $12,000,000 column which we resettled, repossessed, reinstated, or collected.

Mr. WILLIAMS. As you stand now you have lost $6,000,000?

Mr. McDONALD. Well, I would hardly phrase it that way. We still have the balance. We are trying to squeeze something out of it, but it is mighty dry.

Mr. GIFFORD. Has any consideration been given to the abuse in certain localities, for instance, banks and selling organizations would take loans for more——

Mr. McDONALD (interposing). That is true. We have a very different kind of experience with different kinds of institutions. For instance, with bankers doing business locally their experience was excellent. The loss record was low. We found they were as careful in making these loans in most instances as if there was no insurance at all. We found some of the finance companies were not so particular and their loss record was higher. We found the most flagrant cases were some of the manufacturing companies that organized subsidiary finance companies of their own and attempted to use the F. H. A. as the vehicle to push their own sales. In those cases the losses were bad, and in one or two instances where we found an excessive loss record, we have notified them that indications pointed very strongly to the fact that usual business prudence was not being followed in making their loans and we would like them to come to us and explain it more carefully.

Mr. CRAWFORD. In order to clear this up I understood you to say 1,449,000 loans have been made.

Mr. McDONALD. Yes.

Mr. CRAWFORD. Aggregating about $560,000,000?

Mr. McDONALD. Precisely.

Mr. CRAWFORD. Of which 12 million plus have been turned back to you by the banks?

Mr. McDONALD. By the lending institutions?

Mr. CRAWFORD. And that you have handed back to the banks, you have paid $12,674,000 back to the banks. Now, out of those claims there were 2,796,000 that were reinstated?

Mr. McDONALD. Reinstated.

Mr. CRAWFORD. And you are making collections as best you can from time to time?

Mr. McDONALD. That is right.

Mr. CRAWFORD. There was one item $2,226,000 that I did not understand much about.

Mr. McDONALD. That has been turned over to the Treasury of the United States, the Procurement Division, which in turn has disposed of this property to other Government agencies. For instance, there are a great many barracks around the country, Army posts, and so on, which have received equipment, originally insured by F. H. A., repossessed and sent to the Procurement Division and by them probably sent to some Army post. I recall a very large modern kitchen, which came up from some place around Richmond, a rather sizable item, which is now at the Old Soldiers Home.

Mr. CRAWFORD. Would the Accounting Department reflect a loss on that transaction?

Mr. McDONALD. The Accounting Department gives us full credit.

Mr. CRAWFORD. May I ask this. Are your figures broken down in such a way that you can tie back the $12,674,000 to the national banks, State banks, industrial banks and so on, so you can show the amount of default with reference to each?

Mr. McDONALD. Yes; I can. I will do it right here. National banks had a gross-loss record before giving effect to salvage of 1.96; State banks and trust companies 1.47; finance companies 3.61; industrial banks 3.79; building and loan associations 0.40; savings banks 1.18; credit unions 0.45; and all others 1.56, making a gross loss record of 2.17, which, by reason of the salvage and otherwise disposed of property, reduces the net loss to 1.16.

Mr. CRAWFORD. Did I understand correctly the building and loan institutions have a much lower net ratio of loss than other financial agencies?

Mr. McDONALD. I noticed that myself. It is the lowest. The credit unions are next.

Mr. CRAWFORD. Would you attribute that to the long years of experience in making loans and the careful scrutiny of applications for loans by the building and loan associations?

Mr. McDONALD. Yes; I think that is so. Our General Counsel just reminds me they can only make loans secured by mortgages.

Mr. CRAWFORD. If through this agency we are to make loans up to 90 percent of the appraised value of the property, will that not have a tendency to change the channel of borrowing away from building and loan associations to the Federal mortgages where you get 90 percent of the appraised value in the form of a loan?

Mr. McDONALD. I think if a 90-percent loan is to be current for certain classes of people and for certain properties, that a building and loan association for those particular mortgages would probably want to take insurance which they can do at one-quarter of 1 percent.

Mr. CRAWFORD. In other words it either draws the individual to the Government agency or forces the building and loan to accept the loan?

Mr. McDONALD. That is why the insurance is made at that low figure. It is a protection to the building and loan.

Mr. CRAWFORD. Would the State laws allow the building and loan to do that?

Mr. ABNER H. FERGUSON (General Counsel, Federal Housing Administration). In practically all States they have passed enabling legislation.

Mr. McDONALD. As a matter of fact, Mr. Congressman, even with our 80-percent loans, we find a great many building and loan associations do not care to exceed a figure which their directors prohibit.

What percentage comes from the building and loan?

Mr. FISHER (Director of Economics and Statistics, Federal Housing Administration). About 20 percent.

Mr. McDONALD. About 15 percent of all of the F. H. A. are originated in the building and loan.

Mr. GIFFORD. I want to follow that up, because I think it is a most important question. Is it going to dry up the business of the building and loan associations and cooperative banks?

Mr. MCDONALD. I should think it would help them.

Mr. GIFFORD. Unless they would conform.

Mr. MCDONALD. The borrower can get it just as well from the cooperative banks or a building and loan.

Mr. GIFFORD. If he gets it through you?

Mr. MCDONALD. No; he goes to them.

Mr. GIFFORD. At present they loan about 60 percent of the appraised value?

Mr. MCDONALD. No; more than that, Mr. Congressman.

Mr. GIFFORD. In my section it is lower than that.

Mr. MCDONALD. They may have as much as $3 Government money in the Federal savings and loan to $1 of private capital and they can loan up to 80 percent if they choose without any insurance.

Mr. GIFFORD They can if they choose, but Mr McDonald, pardon me, if I say so, I have 17 weekly newspapers on my desk every week. I would like to show you an exhibit of those any week We have an abundance of these associations that will loan money on real estate but they have been unfortunate and they dislike to loan over 60 or 70 percent of the appraised value of the property so, when an individual wants a mortgage and can get 90 percent he would have to come to you.

Mr. MCDONALD. If they want insurance they would have to come to us.

Mr. GIFFORD. They do not have to——

Mr. MCDONALD (interposing). They do not have to make a 90-percent loan.

Mr. GIFFORD. This is a most important question, the most important in the whole thing, what effect is it going to have on these existing agencies now doing business?

Mr. MCDONALD. I still believe, and I repeat, that any benefits derived from the 90-percent loan by the home owner whereby he may only pay down 10 percent would apply just as much to all other agencies as it does now. As a matter of fact those same agencies allow a second mortgage in many instances. Their first mortgage may be 70 percent, and they will permit a second mortgage of 20 percent, making the down payment only 10 percent.

Mr. GOLDSBOROUGH. You spoke of benefits to be derived for the home owner. How would the individual that originally puts up the 10 percent acquire a benefit?

Mr. MCDONALD. He could acquire a home and move into it with a lesser down payment than he would have to put up otherwise.

Mr. GOLDSBOROUGH. How does that benefit him?

Mr. MCDONALD. I think that is a sound loan.

Mr. GOLDSBOROUGH. Assuming that is true, why do the loans have to be guaranteed by the Government if they are sound?

Mr. MCDONALD. You might say that same principle applies to all insurance. If you have a good house, why should you insure it against fire? We know a certain number of houses burn annually.

Mr. GOLDSBOROUGH. If a 90-percent loan was sound, why will not the banks loan 90 percent on the mortgage without having the mortgage guaranteed by the Government?

Mr. MCDONALD. The same thing was true when we brought out the 80-percent loan. The making of an 80-percent loan was a new venture in America.

Mr. GOLDSBOROUGH. Do you mean if you were a lending agency you would loan 90 percent without some guarantee or insurance from some outside agency?

Mr. MCDONALD. As a matter of fact I would not, but curiously enough I have made a deep study of what they have been doing in England. There, with the tremendous building campaign that has been going on for 10 years, they are loaning 90 percent. Originally on 10 percent down payments, they asked for some form of guarantee until the loan was paid down. Now, they are taking the loan without any guarantee and they have gone to a 5-percent down payment. You get back to the principle which I believe is sound. Everybody knows a 10-percent down payment isn't as conservative as a 20-percent down payment; nor is a 20-percent down payment as conservative as a 30-percent down payment; nor is a 30-percent down payment as conservative as a 40-percent down payment, but when you get into the small houses where a man gets a home through a monthly payment of interest and amortization of the loan, at no more than he will pay for rent, he will remain in that home and continue to make payments as long as he is employed. I think the question of down payment is not so important as the question of a man's employment. We can see ahead a year or two when a man makes an application to the F. H. A. We can inquire if he has been steadily employed and if the concern where he is employed thinks well of him, and we can see the man along for several years, but after that the general conditions of the country bear more weight.

Mr. GOLDSBOROUGH. Of course that is true. The question is whether the conditions of the country can improve with that burden of debt loaded on the home owner. That is the question involved, whether you can build up permanent prosperity on that, with such a load of debt.

Now, if a home owner, not the individual; suppose a home owner cannot stand a 90-percent loan, all you are doing is to lose for him his 10 percent and you are guaranteeing the banks that they will receive their emolument without any risk and the builder will receive his and the shark will buy the home in and society will hold the bag. That is the trouble.

Mr. MCDONALD. I agree in a great many of the principles I have heard you express in regard to thrift and so on. One of the startling things to me, with every facility the United States has been able to invent, such as rehabilitation of building and loan associations, putting money in Federal loan associations, the home owners loan insurance in the Federal Housing Administration and so on, with life-insurance companies and others loaning money at the lowest rate the country has ever known, nevertheless there has only been bought in this country during the last 2 years something like 500,000 homes against 9,000,000 automobiles, and the automobiles carry about the same monthly payments as a house, but in 5 years the automobile is on the junk pile while the vines are just beginning to grow on the home.

What we are trying to do is to get people to invest in homes and furnish them a method of saving, and at the same time give them a better habitation than they have had at less monthly cost.

Mr. FORD. May I make an observation there, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. FORD. Mr. Goldsborough is concerned about the 90-percent debt, but if some home owner or potential home owner in paying rent is not only paying the 5 percent that it would cost him to buy a home today, but it would also cost him, the interest plus taxes and all other carrying charges, the owner of the property, from whom he is renting, and he will be paying as much or more for the home he is renting than he will if he were buying under this plan.

Mr. McDONALD. Yes, sindeed.

Mr. CRAWFORD. Will Mr. Ford yield?

Mr. FORD. Yes, sir.

Mr. CRAWFORD. Suppose he is renting a $10,000 home for $25 a month, $300 a year.

Mr. FORD. That is a temporary situation——

Mr. CRAWFORD (interposing). I know they have been renting that way for several years.

Mr. FORD. I have the same situation, but I know also that a thrifty man who wants a home can get it under this plan with a small down payment, and monthly payments fixed not to exceed what he formerly paid in rent, will at the end of 10 or 15 years have a home, whereas if he pays his landlord's interest and landlord's taxes in the form of rent he will not have anything left but a bunch of rent receipts. It is this principle that has encouraged and developed the building and loan association and has made it for a number of years the principal thrift vehicle in this country, and while I do not know how sound a 90-percent loan is, and no one else does, I am inclined to think if you got the right man in a place the 90 percent loan would be as sound as any loan.

Mr. GOLDSBOROUGH. I have no objection to the 90-percent loan provided the borrower can stand it, but I want him to be made secure.

Mr. GIFFORD. May I observe something about the average. The traveler asked the porter what the average tip was and he gave him a dollar, and the porter said, "That is the first time I ever had an average tip."

Mr. FORD. I did not use the word "average."

Mr. FISH. May I ask Mr. McDonald a question?

The CHAIRMAN. Yes.

Mr. FISH. Mr. McDonald, you are supporting the President's program as announced yesterday?

Mr. McDONALD. That is right.

Mr. FISH. And if I understood that message correctly he suggested a reduction from 5½ percent to 5 percent to the home owners in the amount of interest and service charges?

Mr. McDONALD. That is right.

Mr. FISH. That is correct, is it not?

Mr. McDONALD. That is correct.

Mr. FISH. Now, I am entirely sympathetic with a proper and adequate building program but I cannot understand why we cannot make that interest charge very much less to the prospective home owners. I think one of the main difficulties is to get these proposed home owners to pay 5 percent interest or even 4½ percent interest.

Why cannot the interest rates by reduced to 3½ percent when these banks and the Government can get money at 3 percent and less? Why does it have to be more than 3½ percent, and up to now it has been 5 percent and under this proposed bill it is 4½ percent or 5. Would that not encourage it more than anything else if the rate of interest was reduced to 3½ percent?

Mr. McDONALD. There is no question but what the interest question has a very vital bearing on the matter. We ourselves would be happy to see it at the lowest point. You know the Administration does not loan any money. It simply insures the mortgage. If we make a mandatory rate so will the various bankers.

Mr. FISH. Is this not fixing it so the banks can exploit the home owners? If we guarantee the bankers they can get money from the Government at 3 percent and less, why should they charge as they have been charging, and what gets under my skin is why should they charge 5 percent to home owners, and if they continue to charge that I predict we will not have many home owners.

Mr. GOLDSBOROUGH. Wait a moment.

Mr. FISH. Bankers are not taking any risk. I am trying to make that very simple. If I wanted to make it complicated I would add on a half of 1 percent for interest charges, a half of 1 percent for insurance guaranty and another half percent for payments in advance of interest charges; but it means you pay about 6½ or 7 percent without amortization charges, and I want to make this simple, and the interest charges which have been 5 percent, why cannot we do something by legislation to bring it down to 3½ percent in promoting a building program?

Mr. McDONALD. Mr. Congressman, I wish we could.

Mr. FISH. I am putting it to you.

Mr. McDONALD. There is only one way I can think you can do it and that is by constant pressure. If we can get the National Mortgage Association working on a big enough scale or in a large enough way so they would be willing to discount these mortgages for the——

Mr. FISH (interposing). I am predicting right now this whole program is not worth anything if you do not bring it down to 3½ percent. It is a waste of time, your time and my time.

Mr. McDONALD. If we pass a law——

Mr. FISH (interposing). The President talks about building and brings in these big officials and bankers to get their cooperation. I say the first essential in getting their cooperation would be to loan money at 3½ percent.

Mr. McDONALD. I think it would be a wonderful thing.

Mr. GOLDSBOROUGH. These mortgages are guaranteed 100 percent?

Mr. McDONALD. Insured 100 percent.

Mr. GOLDSBOROUGH. Insured 100 percent. Now, that being true, all these banks actually render is a service. They do not take any risk. They could afford to service those mortgages for 3 or 3½ percent and make a very nice profit.

Mr. McDONALD. Well, Mr. Congressman, I do not like to be in a position of saying what a bank can do or cannot do without being more familiar with a particular bank referred to and the condition it is in and the locality it is in. I think if banks can loan very large sums of money with very little handling they can do it at a cheaper

rate than monthly mortgages which require a great deal more bookkeeping than a large loan.

Mr. GOLDSBOROUGH. The banks charge only a rate of 6 percent?

Mr. McDONALD. Yes, sir.

Mr. GOLDSBOROUGH. In that charge is not only involved carrying charges but the risk they take with the loan, and the loans have to be provided for by the interest rate?

Mr. McDONALD. Yes.

Mr. GOLDSBOROUGH. My question is when you eliminate all that risk and leave nothing for the bank to do except service the mortgage, do you not think the average bank could afford to loan this money at 3 or 3½ percent?

Mr. McDONALD. Frankly, I do not think they can. As to the cost in making these small loans—and I will answer another question at the same time—we find the monthly payments of our borrowers run from $30 a month down rather than $30 a month up; $25 would be the average monthly payment. That bank has to take the $25 a month and make a record, segregate the amount of amortization, make the interest, fire insurance and other charges, and the bookkeeping expense in connection with that little loan is a great deal more than a loan of 10 times as much.

Mr. GOLDSBOROUGH. Suppose the loan was for $5,000.

Mr. McDONALD. It would be paid $50 a month. You spoke also of people buying houses on 10 percent down. We find a majority today are buying houses worth $4,900 or less and paying for them around $25 or less per month, which we believe is less than those same people could secure anywhere near as satisfactory housing by paying rent. That is why if they make a small payment and have and can hold their jobs, they will undoubtedly hold onto their houses. These people, as you can see by the other chart, are getting $2,500 a year average.

The CHAIRMAN. What is the general charge in connection with the interest rate under existing conditions?

Mr. McDONALD. Mr. Congressman, I have here a report of the Federal Home Loan Bank Board Review, as of November 1937, page 50.

The analysis shows of the 1,129 federals reporting, 804, or 71 percent were charging rates from 6.3 to 8.7 percent.

More than half of the reporting federals, 627 out of the 1,129, or 55 percent, were charging from 6.3 to 7.2 percent, with 171 federals charging from 7.3 to 8.7 percent.

With the exception of one or two States, more federals in each of the States west of the Mississippi River are charging 6.8 to 8.7 percent than are charging below 6.3 percent, and the rates of the majority of these federals are from 6.8 to 8.7 percent.

Mr. FISH. What do you mean by "federals"?

Mr. McDONALD. Savings and loan associations. The United States has an investment in their capital.

Mr. FISH. Is that the rate the home owners are paying?

Mr. McDONALD. That is the rate the home owners are paying. These are Federal building and loan associations. As for the State building and loan associations I have no figures.

The CHAIRMAN. Do you care to amplify your statements further with reference to interest rates?

Mr. McDONALD. I would say there has been nothing comparable ever before in the history of the United States to the rate placed as the maximum by the President of 5 percent on these small homes.

Mr. FISH. Have you ever studied the history of other countries' building programs?

Mr. McDONALD. I have.

Mr. FISH. They are much lower?

Mr. McDONALD. That is true. What do they charge in England?

Mr. FISH. About 3½ percent.

Mr. McDONALD. Four and one-half percent on individual homes, but let me assure you there is a catch in it because those loans are callable at any time although written for 21 years and they are subject to a change in interest rate, depending upon the money rates of the Bank of England, whereas ours, if a man in Houston, Tex., or Salt Lake, or Boston makes a 20-year loan and money goes up he is still safe.

Mr. FISH. Yes; but a great many of our figures, I have seen in England it is only 3½.

Mr. McDONALD. That is public housing. We have that in the public housing under the Wagner-Steagall bill. The bonds are exempt from taxation and those bonds will be sold at a rate around 3 to 3¼ percent, even down as low as 2⅞. They are Government securities and are tax exempt.

Mr. FISH. May I ask you what happens to the money that is paid for the insurance of the mortgage, mortgage insurance? Is that used for the current expenses of the Government?

Mr. McDONALD. Yes; some of it, the expenses of the F. H. A.

Mr. FISH. Is that in accordance with the law?

Mr. McDONALD. Yes; would you like to hear from our General Counsel?

Mr. FISH. No; I do not want to interrupt you. I want your advice.

Mr. LUCE. You and I have watched the development of the installment-buying system through the years and we have seen the things change gradually until now we see in the newspapers advertisements of certain wares which say "no payment down"?

Mr. McDONALD. That is right.

Mr. LUCE. I have seen the same thing in regard to savings banks and cooperative savings. Do you think it is socially desirable that men shall be induced to incur debt when they have no funds?

Mr. McDONALD. Mr. Congressman, I think I agree with your philosophy. I think thrift is a thing that is very rapidly getting away from the American people, and I would like to see a greater encouragement of it. But I think discrimination should be made as to what the purchase is. I think a man should be encouraged if possible to purchase a home. The home is the center of family life and, if a man and his family have interest in it, they develop a home love which is an asset to the country. The money they would have otherwise dissipated in paying rent is being saved by this forward movement in buying a house which they take a great deal of happiness and joy and pride in. I think that cannot be compared to purchasing an automobile or radio.

Mr. McKEOUGH. Or a fur coat.

Mr. McDONALD. Or a fur coat; yes.

Mr. LUCE. But you do not catch my point. Should a man that has not been thrifty enough to save be permitted and encouraged to get money for practically nothing?

Mr. McDONALD. No; I do not think he should. The F. H. A. is careful in selection of men.

Mr. LUCE. The H. O. L. C. would have foreclosed by this time something like 180,000 mortgages, mostly from men who had no intention of paying and who believed they would never be compelled to pay. Under those circumstances is a mere 10 percent down payment sufficient to insure good faith on the part of the buyer?

Mr. McDONALD. I think, as I have said before, that you can select your risk, and if you can assume the man is going to be continued to be employed, then you can go on that assumption and on his past reputation in the community and the place where he is employed, which is all a guarantee of his good faith, and it is a wise thing for the Government to see that he is in his own home if he is in position to make the purchase.

Now, the F. H. A. is very very careful on that one point. We, for instance, will not accept a mortgage for insurance if the purchaser's income is inadequate to safely support the monthly payments he must make on his home.

As a matter of fact, I think our average is about 15 percent of the annual income of the families purchasing their own homes. We in no case will encourage or allow him to exceed 20 percent.

Mr. LUCE. You have a model administration and I commend you for it, but another department of the Government——

Mr. GIFFORD (interposing). Do you have a copy of the application blank you furnish the borrowers?

Mr. McDONALD. We can get it very quickly.

Mr. LUCE. I want to pursue another line of inquiry.

The CHAIRMAN. Before you do that will you let me interrupt?

Mr. LUCE. Yes.

The CHAIRMAN. I think it might be well to call attention to the fact that the H. O. L. C. was established for altruistic purposes and to take care of emergencies and it should be separated from the ordinary business loans in consideration of this question. I just think it well to call attention to that.

Mr. LUCE. I understand that and I also read in the President's message that altruistic purposes are the real object of this legislation. The circumstances appear to be closely identified. Now most of the questions, in fact all of them, have been addressed to the witness with the interest of the borrower in sight. I would like to ask a question or two about the interest of the lender for I happen to be connected with a savings bank, a building and loan association, or what we call a cooperative bank, and a mutual life-insurance company, and in the mutual life-insurance company instance, every meeting we have held now for years has had for its prime subject the discussion of its real estate. It now owns a considerable number of houses which we do not want and which we could not help. We are now trying to get rid of them.

Now, the men I am speaking for are the little people of the country who have life insurance for which they pay 15 or 25 cents a week, the savings bank depositors, who are little people and the men who put their money into cooperative banks. Now your legislation contemplates the possibility of less income for them. In my own State, sir, the savings banks are now paying on an average of 2½ percent and some are paying 2 percent, and the savings banks prophecy is they will all have to go down to 2 percent. Is it not somewhat one-sided to consider only the borrower and not to pay attention to the little lenders of the country whose sums are amalgamated?

Mr. McDONALD. Yes; your point is well taken. I think the 5 percent is equitable to both.

Mr. LUCE. In view of foreclosures of loans and maintenance charges and all those things, the 5 percent means nothing to the lender. They are now only getting 2½ percent for their money because of the dangers of real-estate investment.

Mr. McDONALD. Well, as Congressman Fish, next to you, observed, the Government guarantees they can make themselves all insurers.

Mr. LUCE. But the Congressman presented an argument directly opposed to my line of thought. He is thinking only of the borrower. I am thinking of the little lender, and I am wondering if it would be socially desirable to pass legislation which would discourage thrift.

Mr. McDONALD. Mr. Congressman, I think you are unnecessarily alarmed. I think a good many of the lending institutions are taking advantage of the F. H. A. insurance in your New England territory because I recall several large life insurance companies up there that have purchased very sizable amounts of F. H. A. insured mortgages for the reason they have what they consider a satisfactory return on their money, yet they divest themselves of the risk of acquiring the properties which you point out.

Mr. LUCE. Now one further question. How fast does a house depreciate?

Mr. McDONALD. I wish I knew.

Mr. LUCE. In other words is it worth as much 6 months after it is built?

Mr. McDONALD. I think you have opened up a very wide question, and one of the things this country has suffered from is that a house will last a great deal longer than the neighborhood will last, due to improper placing of our streets and the laying out of subdivisions. You will find depreciation of a subdivision long before the houses are going down badly. That is one thing—if the F. H. A. has done nothing else, it has been acclaimed by the various city planners and real-estate people, large life insurance companies, and lenders in general, that so far the F. H. A. is the only agency that has done anything to contribute to the stabilization of land and city values.

Mr. LUCE. I have in mind that a piece of property that changes hands has lost value. An automobile, it is said, loses value to the extent of $100 after the first drive.

Mr. McDONALD. That is true.

Mr. LUCE. How soon, instead of having a 10 percent backing, there will be no backing by reason of depreciation?

Mr. McDONALD. Well, of course, you must remember the mortgage is being paid off under our plan every single day. There is an increment of the amortization applicable every single day.

Now as far as depreciation is concerned, I think that depends a great deal upon conditions. I think it depends upon the individual home owner. Some men keep their property up. A great many even improve their property. They plant shrubs, have vines, and

keep adding things from time to time as they have a little money, and if the neighborhood is properly supervised I cannot see why these homes should suffer any deperciation during the first 5 or 6 years. Furthermore, during that time, a very considerable down payment has been made and the equity of the home owner increases.

Mr. LUCE. You would not pay as much for a house that has been used 5 years as it cost originally.

Mr. McDONALD. That brings in the subject of whether it has been taken care of. Perhaps I would.

Mr. LUCE. Would you pay as much for a house 5 years old as a new one?

Mr. McDONALD. I might if it were properly taken care of and if trees and shrubs had been planted. Very often it takes that long before the property commences to look like anything.

Mr. McKEOUGH. It would depend on the market.

Mr. LUCE. Assuming the market is the same and you have only 10-percent backing, you are without your backing.

Mr. FORD. It is amortized.

Mr. McDONALD. It is being paid off.

Mr. LUCE. It decreased very much faster than the amortization.

Mr. McDONALD. That is probably true if you are writing it up as second-hand property, but on the other hand, if the neighborhood is nice and increasing in popularity because of new schools and churches and the improvement of neighboring properties through proper planning and planting, and so forth, we do not think there is any hazard there at all.

Mr. LUCE. I, unfortunately, have had the contrary experience so much I cannot accept your view for a moment.

The CHAIRMAN. Is this not true that the longer a purchaser keeps a home and makes installment payments the more he begins to have the feeling of home ownership and the more likely he is to feel it is an investment to him, and feel an attachment to that home with all that it may mean to the head of the family, and would not those considerations enter into the likelihood of completing payment?

Mr. McDONALD. I think that is very well put, Mr. Chairman.

Mr. LUCE. But foreclosure is almost always due to necessity. There are pitiful cases that come to us almost every day from people who love their homes and would make almost any sacrifice to keep them.

Mr. McDONALD. It may interest you to know that of a great number of the homes bought in the last few years, very few have been purchased with a down payment in excess of 10 percent. I mean homes under $10,000 because the original lender has a first mortgage of 50 to 60 percent and there were several other mortgages, a second and third mortgage, with interest running all the way from 8, 9, and 10 percent, so the risk in home ownership was more hazardous because of the terrific rate the owner had to pay. Our purpose is to consolidate these loans so that his down payment will be no different but his interest will.

Mr. GIFFORD. The Congressman has suggested these rental properties. How about the tenant in there? Does the 90-percent insurance apply where there is a tenant?

Mr. SPENCE. What actuarial experience do we have applicable to this?

Mr. McDONALD. There is none that I know of. Dr. Fisher have you been able to develop anything on that?

Mr. FISHER. We have no actuarial data.

Mr. SPENCE. The original bill provided that it should not be more than 1 or less than one-half percent as provided by you?

Mr. McDONALD. That is true.

Mr. SPENCE. You fixed it at one half of 1 percent?

Mr. McDONALD. Yes, sir.

Mr. SPENCE. You intend to reduce the premium to one-quarter of 1 percent?

Mr. McDONALD. That is right.

Mr. SPENCE. Is not the hazard increased twice as much as originally?

Mr. FISHER. The experience of life-insurance companies shows that for the smaller homes they have less risk, and if they are repossessed they are readily sold.

Mr. SPENCE. When you insure a mortgage up to 90 percent of the appraised value, you are not only insuring payment of the mortgage, but you are insuring the value of the property and does that not at least double the hazard?

Mr. FISHER. I will not say it doubles the hazard and I will come back to your statement that one-quarter of 1 percent is not adequate, and if it is not, I will say that is the responsibility of the United States.

Mr. SPENCE. In your experience what has been the result of one-quarter of 1 percent, has that been adequate?

Mr. FISHER. Our experience so far has indicate that we would be able to operate the Federal Housing Administration on a lesser premium, at a less premium expenditure than most insurance companies. Our research department tells us that the percentage of premium varies. Insurance companies use for overhead from 22 percent, 21 percent for a 20-year life insurance policy, to 77 percent for a steam-boiler-insurance policy. We figure we use about 18 percent of our premium income over a 20-year mortgage. That would be about the first 2 years' premium that we would count for ample income to pay our expenses and what the loss record would be is a question of whether the accumulation of the full 18 years would be sufficient, depending entirely upon the condition of the United States.

Mr. FORD. The F. H. A. has not been in business long enough to base an accurate prediction.

Mr. McDONALD. We have not been in business long enough to tell.

Mr. FISH. Is there anything in this bill that frightens the cooperation of the building and loan associations?

Mr. McDONALD. We cooperate very closely with building and loan associations.

Mr. FISH. That is an organization which has had vast experience in lending to home owners?

Mr. McDONALD. That is true.

Mr. FISH. Is there not something we can do to secure their cooperation and make it possible for them to loan money at a lower rate of interest?

Mr. McDONALD. If they will use F. H. A. facilities, and a great many do on their high-percentage loans, they get in return a mortgage loan that will not carry the hazard of accumulating property.

Mr. FISH. How can we reduce the rate of interest to proposed home owners? If other nations have done it, such as Germany, Belgium, England, and others, we at least should be able to do it.

I want to preface my remarks by saying this, I think it is the most desirable thing to put American people in their own homes to combat communism and radicalism, and I will go to any extent that is reasonable, and I want to find some way to lower the rate of interest.

Mr. CRAWFORD. May I ask one more question?

Mr. FISH. If you can think of any proposition or any plan either to help the building and loan associations or through this bill to get money at a lower rate of interest, I hope you will come back.

Mr. CRAWFORD. In riding the streetcars and busses I noticed an advertisement speaking about the help you give to the prospective builder or purchaser if he lets you pass on it before it is actually built. I notice in this new bill some provisions that you will do certain things if you have the privilege of approving the loan before construction begins. If that plan could be adopted on all of this work would that not tend to eliminate a great deal of this depreciation that has been suggested?

Mr. McDONALD. That is true, Mr. Congressman, it is in the bill. We will only insure newly constructed residences where we have an opportunity of inspecting them before they are completed. That is to be certain they are built soundly and well.

Mr. CRAWFORD. Would you desire to have put in the bill a proviso that you shall have something to say about where these places shall be located before you will insure them?

Mr. McDONALD. We do that too. We are very strict on what we call lot coverage. We want well-developed and well-built houses on town lots and not jammed up with insufficient light. In fact there are some towns where we have done very little business at all because of the fact they insist on clinging to the old row houses.

Mr. GIFFORD. Is there anything in your application blank that ties a man up so that he cannot rent his house?

Mr. McDONALD. After he has made his application?

Mr. GIFFORD. Suppose he occupied it for 10 days and decided to rent it?

Mr. McDONALD. The law says nothing about that and there is no administrative rule at the present time.

Mr. GIFFORD. I do not want to ask the question in such a way——

Mr. HANCOCK (interposing). Ninety-percent insurance.

Mr. ABNER H. FERGUSON. Under this 90-percent mortgage provision it provides the mortgagor shall be the owner and occupant of the property, and at the time of insurance, shall have paid on account of the property at least 10 percent of the appraised value in cash or its equivalent, and the property shall have been approved for mortgage insurance prior to the beginning of the construction of the dwelling.

Mr. McKEOUGH. Does that apply to $6,000?

Mr. ABNER H. FERGUSON. Yes, sir.

Mr. GIFFORD. What has that to do with the tenants?

Mr. ABNER H. FERGUSON. We can only control the status of the property at the time we write the insurance.

The CHAIRMAN. Mr. McDonald, I want to bring out one point I think should be emphasized in this discussion and that is there is no mandatory provision in this law requiring you to insure mortgages up to 90 percent. As a matter of fact, you pass on each individual mortgage with all the circumstances never forgetting the character of the occupant.

Mr. McDONALD. That is precisely true, and furthermore in making loans we take carefully into consideration the age of the applicant.

The CHAIRMAN. But never forgetting the character of the mortgagor.

Mr. McDONALD. But never forgetting the character of the mortgagor and his position in his community.

Mr. McKEOUGH. May I ask a question right there?

The CHAIRMAN. Yes, sir.

Mr. McKEOUGH. Based on your experience and the mortgages you have accepted, what percentage of applications have been turned down?

Mr. McDONALD. I will tell you that precisely. We have selected for appraisal 322,651 mortgages so far. When I say "selected for appraisal" I mean that we thought sufficiently well of those mortgages to believe they would pass or had a very good chance of passing because when a mortgage is brought into our office it is given a careful office appraisal. Frequently a member of the staff gets in an automobile, goes out and looks the situation over and comes back saying, "We cannot handle it." We make no charge for that appraisal. On the other hand, if it looks as if it will pass and, as often happens, those suburban developers bring us a plan to develop a piece of land with from five to seven hundred homes, we examine it carefully, and say "If you will plan the streets and houses in this way or that way, we will insure it all." We ask them to pay our appraisal fee.

We have as of October 31, 1937, accepted fees on $1,329,000,000 worth of property and of this only $234,000,000 was rejected. It does not necessarily follow that we rejected the property because of some fault or defect, but, as oftentimes happens where large suburban developments have our approval, they will pay to have an F. H. A. approval on the project but will not insure the mortgage, because a man may pay cash and another man may pay half. Sometimes the building and loan does not think it is necessary to insure the mortgage and some bank may make a loan because they say, "We know that fellow well and we will not require insurance." We do get paid for inspection and approval of the property, and on each one of those new structures built our men go out and make three complete inspections.

Mr. McKEOUGH. I understand the mechanics. What I wanted was information whether your record indicates in percentage what percentage of applications reached the point of being approved or disapproved, and what percentage were disapproved?

Mr. McDONALD. By structural defects?

Mr. McKEOUGH. By whatever cause in your judgment made it necessary to disapprove it.

Mr. McDONALD. Thirty-two percent were either disapproved or failed of approval. I could not exactly state the cause of rejection. This 32 percent also includes mortgages still in process of examination.

Mr. FISHER. Approximately 15 percent are rejected, not including

cases which were withdrawn. Including withdrawals the percentage is 19.

Mr. McKEOUGH. What was the primary cause for rejection?

Mr. FISHER. We cannot tell that.

Mr. McKEOUGH. Was there any indication in your studies in connection with the rejection that caused you to be hesitant to guarantee the mortgage if one that you serviced (the mortgagor) was over 40 years of age at the head of a family?

Mr. FISHER. We have not made a break-down of the reasons for rejection.

Mr. McKEOUGH. In other words your statistics have not been developed in any way to show that among the reasons for disapproval is that industries are reluctant to employ anyone over 40 years of age?

Mr. FISHER. No; we have no such statistics.

Mr. McKEOUGH. In other words, that has not come to your attention?

Mr. FISHER. We are preparing such a tabulation now.

Mr. McKEOUGH. That has not developed to the point that you can offer anything to the committee in connection with the proposed new law?

Mr. FISHER. There is nothing we can give you statistically, but we can tell you as a matter of general information that the causes of rejection vary widely.

Mr. McKEOUGH. Is there some particular major factor you have recognized in your study?

Mr. FISHER. There is nothing that stands out. There is no particular item that stands out in our experience. It may be the location of the property. It may be in some cases the age of the borrower and the probability that he will not be able to carry through the mortgage to its end. It may be the proportion of the mortgage to the value of the property. In many cases we have had to reject, but we have made a counter proposition that instead of insuring for 80 percent on that mortgage we would insure it for 70 percent.

Mr. McKEOUGH. Has your study developed this observation: That those you have approved have an average income of say $2,000 or $2,100 or $2,300 or $2,900, what is your average income of those borrowers that you have approved?

Mr. McDONALD. The average is between $2,000 and $2,500 per year.

Mr. McKEOUGH. The average is between $2,000 and $2,500 per year?

Mr. McDONALD. There is the chart showing the distribution of income.

Mr. McKEOUGH. So that the possibilities of this enabling legislation which you are now here recommending we consider and adopt will have very little effect insofar as it relates to the benefit of the great mass of industrial workers of the Nation in that their income as usually based on the statistics of the Labor Department is considerably less than the average of $2,000 a year; is that a fair conclusion?

Mr. McDONALD. The reason, Mr. Congressman, why I referred to that distribution of income is that the average income is probably deceiving in that it weighs heavily against the high income. A considerable percentage of our mortgagors are receiving an income of under $2,000 and some of them under $1,500, and we have a few cases in which it is under that.

Mr. McKEOUGH. But your higher loans between $2,000 and $2,500 and $1,500 and $2,000, those are the two largest groups. I am concerned not so much in the great protection that is to be set out to the lender. I differ from my colleague from Massachusetts because it has been my experience the lender needs very little protection insofar as his interest needs to be safe-guarded by Government action. It is the borrower we are concerned with and we are concerned with him because there has been a great shortage of housing facilities in this Nation in spite of its being the richest nation in the world, and we want to try to help that. I think that everybody on the committee is convinced if we can regenerate a construction program in this country we will have gone a long way to dispel the depression in business and stimulate industrial activity, but more than that we are making it possible for deserving citizens to own their own homes and the Government has an obligation to do this. What I am concerned with is the $6,000 maximum. I can not visualize that that $6,000 would be of any avail particularly in my city of Chicago, because both material and labor cost will be substantially higher.

As I see the situation as applied to the construction of new homes in my city, particulary when I know the average income there as reflected by the Labor Department statistics is lower than shown here—I share the views of Mr. Fish, of New York, that the interest rate is the thing that stymies and prevents people from owning their homes, and the thing that encourages me is that in spite of the great sacrifices made throughout the depression years there is still a great desire on the part of the great bulk of our people whom I think are the best people in the world, to own their own homes, and I share the views of Mr. Fish and I hope you can come back during these hearings and put out ways and means to reduce the interest charges even though the down payment is 10 percent.

I am willing to go to the point of making no requirement in order that those deserving citizens of our Nation may have their own homes and get the things they should have, and I heartily agree with you, Mr. Fish.

The CHAIRMAN. Gentlemen, the committee will stand adjourned until tomorrow morning at 10:30, at which time Mr. Jesse Jones will be with us. Mr. McDonald will resume his statement on Thursday morning.

(Whereupon, at 12:30 o'clock p. m., the committee adjourned until 10:30 o'clock a. m., Wednesday, December 1, 1937.)

AMENDMENTS TO NATIONAL HOUSING ACT

WEDNESDAY, DECEMBER 1, 1937

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 10:30 o'clock a. m., pursuant to adjournment, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Goldsborough, Reilly, Hancock, Williams, Spence, Farley, Meeks, Kopplemann, Ford of California, Brown, Clark, Patman, McKeough, Transue, McGranery, Wolcott, Fish, Gifford, Luce, White, Crawford, and Gamble.

The committee had under consideration H. R. 8520, the administration housing bill.

The Chairman. The committee will come to order. Mr. Jones, come around please.

Gentlemen, I have asked Mr. Jones, Chairman of the Reconstruction Finance Corporation, who needs no introduction to this committee, to discuss this bill, and Mr. Jones, we shall be glad to have you proceed uninterrupted, if you desire to do so, and later the committee may wish to interrogate you.

STATEMENT OF JESSE H. JONES, CHAIRMAN, BOARD OF DIRECTORS, RECONSTRUCTION FINANCE CORPORATION

Mr. Jones. Mr. Chairman and gentlemen, I have no prepared statement. I really came over as a character witness for Mr. Stewart McDonald. However, I do not see him here. [Laughter.]

The Chairman. Mr. McDonald, I think, is before the Senate committee.

Mr. Jones. I would prefer to reply to questions if I could be allowed to do that. I have been rather familiar with the operation of the F. H. A. We have had a good deal of business with it.

The Chairman. I want to direct your attention to that very phase of this legislation, that is to say we would like to have you tell us just what the R. F. C. has been doing under the existing law and what change in your service will be accomplished by the present proposed legislation.

Mr. Jones. I think there would be no change as far as the R. F. C. is concerned. I noticed in the President's message he contemplates the R. F. C. will buy stock in the National Mortgage Association up to a limited amount. That we can do under authority we now have.

The Chairman. Let me ask you about that. Just where do you find authority for the purchase of stock in these associations at this time?

Mr. Jones. We asked you 3 years ago to give us authority to buy stock in mortgage companies and national mortgage associations with

a view to helping the mortgage situation and you gave us the authority up to the limit of a hundred million dollars. We tried to get mortgage companies organized throughout the country, but found no private money willing to go into the business. We therefore organized the RFC Mortgage Co. and under that authority purchased its stock. That company has been making mortgage loans and purchasing F. H. A. insured mortgages.

Mr. GOLDSBOROUGH. You do make loans through your own mortgage company?

Mr. JONES. We make loans.

Mr. GOLDSBOROUGH. What percentage of the appraised value of the property do you loan?

Mr. JONES. It depends entirely upon the character of the property and its earning power.

Mr. GOLDSBOROUGH. What would be your range?

Mr. JONES. Sir?

Mr. GOLDSBOROUGH. What would be your range?

Mr. JONES. Our range would be from about 50 to 75 percent.

Mr. GOLDSBOROUGH. You do not take many 75-percent mortgage loans, do you?

Mr. JONES. Sir?

Mr. GOLDSBOROUGH. You do not take many 75-percent mortgage loans, do you?

Mr. JONES. I doubt if we have. We have had very few applications for mortgage money to build because of the absence of equity money. People are not disposed to build now because of the many tragedies in real-estate operations in the past, and though they were not as numerous or as severe as the stock market tragedies, nevertheless the stigma seems to last longer.

Mr. WILLIAMS. You make those loans on all character of buildings?

Mr. JONES. Construction; yes, sir.

Mr. WILLIAMS. I mean by that commercial as well as residential. Do you make them on all?

Mr. JONES. Yes; we would like to.

Mr. WILLIAMS. Well, you do?

Mr. JONES. We make some.

Mr. WILLIAMS. What is your interest rate?

Mr. JONES. Four and one-half percent. It was 5 and we reduced it to 4½.

Mr. WILLIAMS. To what extent have you made loans on residential construction?

Mr. JONES. We have made no loans for construction of small residences, but we purchase F. H. A. mortgages.

Mr. WILLIAMS. That is on the large-scale housing projects?

Mr. JONES. On small homes.

Mr. WILLIAMS. Does it apply also to individual units?

Mr. JONES. We purchase F. H. A. mortgages on small units.

Mr. WILLIAMS. Small units?

Mr. JONES. Yes.

Mr. FISH. What is the total amount of loans on homes, apartment houses and all construction?

The CHAIRMAN. I understood Mr. Jones to say he had made no loans on homes.

Mr. JONES. Except the purchase of F. H. A. mortgages.

The CHAIRMAN. They are guaranteed?

Mr. JONES. They are guaranteed and we only purchase those on newly constructed homes.

The CHAIRMAN. And owner-occupied homes?

Mr. JONES. Yes, owner-occupied homes.

Mr. WILLIAMS. I understood that was your ploicy, you had no applications, but you would make the loans?

Mr. JONES. Yes.

Mr. FISH. Have you that power to do it now?

Mr. JONES. Yes, the RFC Mortgage Co., may do it.

Mr. FISH. And you have not done it?

Mr. JONES. We have made very few residential loans but have purchased many F. H. A. mortgages.

Mr. FISH. I thought you had said you had made none.

Mr. LUCE. Do you think it would be easier, or what reasons have you for thinking that national mortgage associations can be developed under the proposed law when they were not under the existing law?

Mr. JONES. Well, this is a little more liberal law than the other.

Mr. LUCE. I do not want to embarrass you, but do you think national mortgage associations will be formed?

Mr. JONES. I do not know. None have been and we have offered to match dollars with the capital of the national mortgage associations, but I think probably the reason none have been formed, or one reason, is the 1939 limitation. Do you know what that is, Mr. Ferguson?

Mr. ABNER H. FERGUSON. The guarantee of debentures expires on July 1, 1939.

Mr. LUCE. Has any man in the financial world told you he would go into this?

Mr. JONES. No; there is no reason why he should.

Mr. LUCE. I am asking you because I have grave debts about it.

Mr. FISH. May I ask you, Mr. Luce, if there is any such thing as a national mortgage association?

Mr. LUCE. None have been formed.

Mr. FISH. Mr. McDonald said yesterday none existed.

Mr. JONES. He was talking about the national mortgage association undoubtedly.

Mr. KOPPLEMANN. Do I understand, Mr. Jones, under this proposed act, that you have money and authority to make loans to home owners?

Mr. JONES. By the RFC Mortgage Co.; yes, sir.

Mr. KOPPLEMANN. And under this proposed act as well?

Mr. JONES. Yes, sir.

Mr. KOPPLEMANN. That is all.

The CHAIRMAN. Mr. Jones, at the time the act authorizing the R. F. C. to organize the mortgage company and to subscribe for such stock was approved, there had been no provision for the national mortgage association such as is embodied in the Federal Housing Act, had there?

Mr. JONES. It might have been passed at some session of Congress.

The CHAIRMAN. Is there anything in the law giving authority to the R. F. C. which would authorize the R. F. C. to organize and initiate national mortgage associations as approved in the Federal Housing Act?

Mr. JONES. We can under this law as proposed.

The CHAIRMAN. I am talking about the present law.

Mr. JONES. I am talking about the existing law; yes, sir. I do not know whether we could organize——

The CHAIRMAN (interposing). You have never undertaken that?

Mr. JONES. We never thought it was part of our function.

Mr. ABNER H. FERGUSON. Mr. Chairman, there is specific authority in one of the acts authorizing the R. F. C. to purchase stock.

The CHAIRMAN. To purchase stock?

Mr. ABNER H. FERGUSON. Yes.

The CHAIRMAN. That is not what I am talking about. I am asking about the authority of the R. F. C. to organize national mortgage associations under the National Housing Act. Mr. Jones has already told us he had offered to match dollar for dollar, but what I want to inquire about is whether or not there has been authority heretofore for the R. F. C. to organize one of these Associations outright.

Mr. ABNER H. FERGUSON. There is no limitation in the act as to the purchase of stock which the R. F. C. could buy.

The CHAIRMAN. Let me ask you this, you had something to do with preparing the present bill before us?

Mr. ABNER H. FERGUSON. I drafted it.

The CHAIRMAN. Well, you did see fit to confer specific authority by this bill upon the R. F. C. to supply the stock of these corporations in full?

Mr. ABNER H. FERGUSON. Oh, no; it is not mentioned anywhere. There is not any provision about the R. F. C. buying stock because we thought there was already sufficient provision.

Mr. FORD. May I make an observation there, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. FORD. We gave the R. F. C. authority to buy stock in national mortgage associations and they found nobody to match the money, and as sort of a help to get around that they did do something and organized the RFC Mortgage Co.

Mr. JONES. That is right.

Mr. FORD. That is the situation and that authority exists.

The CHAIRMAN. What I am trying to make clear is whether or not under the law conferring the authority upon the R. F. C. there was such authority to permit that to be done.

Mr. GOLDSBOROUGH. Mr. Ferguson, while the R. F. C. may purchase stock yet that would not give the R. F. C. authority to form a company. That is a different proposition.

Mr. ABNER H. FERGUSON. Yes, there is no limitation on the amount of stock they could buy.

Mr. GOLDSBOROUGH. They may have authority to buy stock in national banks.

Mr. ABNER H. FERGUSON. I think the authority is limited to the preferred capital stock.

Mr. JONES. What is the purpose of your question?

The CHAIRMAN. I am inquiring whether Congress had conferred upon the R. F. C. authority to organize one of these national mortgage associations, and I do not think we did.

Mr. JONES. No.

Mr. WOLCOTT. May I suggest under the same authority the R. F. C. was set up, that initially the RFC Mortgage Co. was set up under the general power granted to the President.

Mr. JONES. I think we could under the law now take the stock of the national mortgage association, but we have not thought that we should because that was not the purpose and intent of the law. You passed a law to create machinery for private capital.

The CHAIRMAN. That is what I am undertaking to develop.

Mr. JONES. To encourage that we undertook to——

The CHAIRMAN (interposing). What is the language of the act?

Mr. ABNER H. FERGUSON. Here is the act, if the committee please. The Reconstruction Finance Corporation Act as amended was amended by an act of Congress approved January 1, 1935, to read as follows; this is section 5-C of the act:

> To assist in the reestablishment of the normal mortgage market, the Reconstruction Finance Corporation may with the approval of the President subscribe for or make loans upon the non-assessable stock of any class of any national mortgage association organized under title III of the National Housing Act or in any mortgage loan company, trust company, savings and loan association or other similar financial institutions now or hereafter incorporated under the laws of the United States or any State—

and so forth.

The CHAIRMAN. That is the authority the R. F. C. now has?

Mr. ABNER H. FERGUSON. That is right.

The CHAIRMAN. And you think that is broad enough to authorize them to organize a mortgage association?

Mr. ABNER H. FERGUSON. I certainly think so.

Mr. WILLIAMS. On what theory do you think that?

Mr. ABNER H. FERGUSON. We can form a national mortgage association by naming five people to form the association and subscribe to the stock.

Mr. WILLIAMS. I doubt that, under the law, but even so, what is the authority for creating the R. F. C. Mortgage Co.?

Mr. ABNER H. FERGUSON. That is another angle altogether.

Mr. WILLIAMS. I am simply asking what is the authority?

Mr. ABNER H. FERGUSON. I think it is the same authority.

Mr. JONES. When was it passed?

Mr. ABNER H. FERGUSON. 1935.

Mr. WILLIAMS. Have you any other authority than just read for creation of the RFC Mortgage Co.?

Mr. ABNER H. FERGUSON. I do not know anything about that. I am not connected with the Reconstruction Finance Corporation.

Mr. WILLIAMS. I would like to ask Mr. Jones that question: Upon what authority have you organized the RFC Mortgage Co.?

Mr. JONES. The authority you gentlemen gave us in 1934.

Mr. WILLIAMS. Is that the authority just read?

Mr. JONES. I think you gave us that authority in 1934, it may have been in 1935, to buy stock in mortgage companies.

The CHAIRMAN. In other words, you did not organize your mortgage company under authority conferred in the Housing Act?

Mr. JONES. No.

Mr. WILLIAMS. On what authority did you organize?

Mr. JONES. The specific authority that you gave us.

Mr. WILLIAMS. To organize?

Mr. JONES. To buy stock in mortgage companies.

Mr. ABNER H. FERGUSON. That is contained in this act.

Mr. JONES. That is what we did.

Mr. WILLIAMS. Did you organize it?

Mr. JONES. We organized and operate it.

Mr. WILLIAMS. On the same principle you now contend you can organize national mortgage associations and buy stock in it?

Mr. JONES. I believe we could.

The CHAIRMAN. As a matter of fact you have not passed on that question.

Mr. JONES. It has never been suggested that we organize a national mortgage association.

Mr. WILLIAMS. The Reconstruction Finance Corporation Mortgage Co. and the National Mortgage Association, so far as the authority given to the R. F. C., to organize either are on the same footing: In other words, you have the same authority under the laws that now exist to organize a National Mortgage Association as you had to organize the RFC Mortgage Co.?

Mr. JONES. I think so.

Mr. FORD. Under section 301 (a) which is as follows:

The Administrator is further authorized and empowered to provide for the establishment of National Mortgage Associations as hereinafter provided, which shall be authorized, subject to rules and regulations to be prescribed by the Administrator, (1) to purchase, service and sell first mortgages and such other first liens as are commonly given to secure advances on real estate held in fee simple or under a lease for less than 99 years, under the laws of the state in which the real estate is located, together with the printed instruments, if any, secured thereby, such mortgages not to exceed 80 per centum of the appraised value of the property as of the date the mortgage is purchased, and to make loans and advances upon, and to purchase, service, and sell mortgages or partial interest therein, which are insured under Section 207 of this Act.

There you are setting up national mortgage association authority and the administrator is the Federal Housing Authority.

Mr. JONES. Will you read that again?

Mr. FORD. It is section 301 (a), as follows [reading]:

The Administrator is further authorized and empowered to provide for the establishment of national mortgage associations as hereinafter provided which shall be authorized, subject to rules and regulations to be prescribed by the Administrator (1) to purchase, service, and sell first mortgages and such other first liens as are commonly given to secure advances on real estate held in fee simple or under a lease for less than 99 years, under the laws of the State in which the real estate is located, together with the printed instruments, if any, secured thereby, such mortgages nct to exceed 80 percent of the appraised value of the property as of the date the mortgage is purchased, and to make loans and advances upon, and to purchase, service, and sell mortgages or partial interest therein which are insured under section 207 of this act.

Mr. JONES. That is the 1935 act?

Mr. FORD. This is the new act. Now that gives the F. H. A. Administrator the authority to do what you now have the authority to do, in my judgment.

Mr. ABNER H. FERGUSON. No; we can only do it on the application of private capital. You will notice section 301 (b) provides that—

any number of natural persons, not less than five, may apply to the Administrator for authority to establish a national mortgage association and, at the time of such application, shall transmit to the Administrator articles of association, signed and sealed by each of the incorporators and acknowledged befcre a judge of any court of record or a notary public, which shall contain (1) the name of the association, (2) the place where its principal office or place of business is to be located, and (3) such information with respect to its capital stock as the Administrator may by regulation require.

The CHAIRMAN. Where, under that provision, would the R. F. C. find authority to organize a national mortgage association?

Mr. ABNER H. FERGUSON. The R. F. C. could take five of its officials, that is the only way they could do it, take five of its officials and operate it as a board of directors representing the R. F. C., the stockholder.

The CHAIRMAN. What is the act that authorizes the national mortgage association?

Mr. ABNER H. FERGUSON. The present act provides, and the amendment is practically the same, the Administrator is further authorized and empowered to provide for the establishment of national mortgage associations as hereinafter provided, which shall be authorized, subject to rules and regulations to be prescribed by the Administrator, (1) to purchase and sell first mortgages and such other first liens as are commonly given to secure——

The CHAIRMAN (interposing). You need not read all of that, but that is the authority for five persons?

Mr. ABNER H. FERGUSON. Here it says any number of natural persons, not less than five, may apply to the Administrator for authority to establish a national mortgage association and, at the time of such application, shall transmit to the Administrator articles of association, signed and sealed by each of the incorporators and acknowledged before a judge of any court of record or a notary public.

The CHAIRMAN. Would you say under that authorization five natural persons to organize, that the R. F. C. could go out and organize?

Mr. ABNER H. FERGUSON. Yes; I think so undoubtedly.

The CHAIRMAN. Do you think we had any such idea as that in mind when we passed that law?

Mr. ABNER H. FERGUSON. I think you had that idea in mind when you passed the act authorizing the R. F. C. to subscribe for stock. If there is any doubt about it I would like to have it cleared up.

Mr. FISH. I think you put the whole question very clearly. It is debatable whether they have that power. Unless we give them that power I doubt if any of those private organizations will form. If they do not have the power we had better give it to them.

The CHAIRMAN. The President clearly contemplates the R. F. C. shall be given authority to organize these associations and subscribe for stock, and in addition to that purchase the debentures of these associations so that we may be sure we will not be dependent upon private initiative and investment to organize these associations, because we have already found the authority conferred for such private activity has proven disappointing.

Mr. ABNER H. FERGUSON. Yes, sir.

The CHAIRMAN. It was argued in this committee at the time that we were going to give opportunity for some shylocks to get out and organize these associations, but we did not have any such trouble as that so far and my thought is if we are going to do what we want to do and what we say we are going to do that this bill should have a specific provision authorizing the R. F. C. to organize these associations and subscribe to the stock and purchase debentures.

Mr. ABNER H. FERGUSON. I quite agree with you; and may I make this further observation, Mr. Chairman: I do not myself have very much confidence in the organization of national mortgage associations by private capital until in some way the venture has been proved. I

think if the R. F. C. would organize one of these associations it could sell the stock in the association and we would have private capital operating these national mortgage associations, but the thing is so entirely new.

The CHAIRMAN. Nobody would accept our good faith or protestation of good faith in undertaking to render this service to the country if we rely upon private capital, in the light of our experience.

Mr. ABNER H. FERGUSON. I think so myself. There have been a number of very serious difficulties in connection with the organization of this national mortgage association, and I think we have remedied all we have encountered.

Mr. MCKEOUGH. Is the remedy in your judgment the exception of their obligations from taxation, is that the controlling remedy?

Mr. ABNER H. FERGUSON. I think there have been several. The first was the limit of July 1, 1939. They were not willing to put effort, money, and time into a corporation and get started and have the guaranty go off. The next objection has been these associations have been authorized only to issue debentures up to 12 times their capital, although they cannot have debentures outstanding in excess of the amount of their insured mortgages, so their debentures are always backed by insured mortgages, Government bonds, or cash. Now we have in these amendments changed their rate to 20 times the capital which gives them a larger spread.

Mr. MCKEOUGH. And the possibility of larger return by tax exemption?

Mr. ABNER H. FERGUSON. That is right.

Mr. WOLCOTT. May I suggest that we remedy that objection by this new law, whereas national mortgage associations have to have $5,000,000 paid in capital under the old law, which undoubtedly discouraged the idea, that is amended to authorize only 25 percent of paid-in capital?

Mr. ABNER H. FERGUSON. That is right.

Mr. WOLCOTT. The R. F. C. can purchase the initial 25 percent which will allow them to get started?

Mr. ABNER H. FERGUSON. Yes, sir.

Mr. WOLCOTT. It seems to me we are talking about historical things which will be taken care of by enactment of this new law?

Mr. ABNER H. FERGUSON. That is right.

Mr. WOLCOTT. Probably that will give encouragement to private capital to organize national mortgage associations.

Mr. MCKEOUGH. May I ask a question there following up my first question?

The CHAIRMAN. Yes.

Mr. MCKEOUGH. Is it your idea then with this exemption for your obligation the national mortgage association will get a sufficient amount of private capital to really organize?

Mr. ABNER H. FERGUSON. I think so. As I said a moment ago, I have some doubt if we can get private capital otherwise.

Mr. LUCE. May I ask the witness if any businessman has suggested that he is ready to go into any of these enterprises?

Mr. ABNER H. FERGUSON. I would not say, Mr. Luce, any businessman has said they had the money to go in and would put it in. We have had literally hundreds of people in to see us since the act was passed and some of them were people who were certainly able to put in

any amount of money they wanted, but when they looked into the thing they found it was not workable. So, I do not know whether anybody came in with a certified check for $5,000,000 or anything of that sort, but we have had people in by the dozens who have been financially able to go into the thing and appeared to be seriously interested.

Mr. GOLDSBOROUGH. What was it they found was not workable except the dentures were only guaranteed to 1939?

Mr. ABNER H. FERGUSON. Well they found they did not think they could work on 12 times their capital basis, and they found that they did not have a sufficient volume of insured mortgages outstanding to immediately fill their portfolio so they would have their money idle until they could get them. That gave rise to the amendment which changes the law and permits organization of the National Mortgage Association on 25 percent of paid-in capital but does not permit them to issue debentures until fully paid.

Suppose the association is formed with $2,000,000 capital. They go out and buy $500,000 worth of mortgages and then they buy another $500,000 and pay in $500,000, and when they had $2,000,000 they could sell debentures against $2,000,000 of mortgages.

The CHAIRMAN. I want to ask Mr. Jones a question that has a little to do with the successful operation of this bill.

Is the R. F. C. equipped with necessary funds to do this work if the authority is properly conferred?

Mr. JONES. Yes, sir.

Mr. LUCE. I have gathered from time to time that the understanding is the R. F. C. was to be a temporary organization. Would not this legislation be one more addition to make it a permanent organization?

Mr. JONES. Only to the extent of this enterprise.

Mr. LUCE. Well, you have an investment you would have to have a working force, office and other paraphernalia and it would inevitably become a permanent organization. Do you think that is desirable now?

Mr. JONES. I think this legislation is desirable.

Mr. LUCE. I have been here long enough to go through the history of the R. F. C. and when the question was raised as to extending its life it was extended several years beyond the recommendation of the Secretary of the Treasury and the President of the United States.

Under those circumstances it seems to me pertinent to make this inquiry.

Mr. JONES. I do not believe the investment in the stock of a mortgage association would prolong the life of the R. F. C. or keep it in existence 1 more day longer than necessary. We have stock in 5,000 banks and numerous other activities, but the administration of that investment will keep somebody busy for a good many years.

Mr. LUCE. That could be turned over to the Treasury Department.

Mr. JONES. That could be done. This is just one more of the many things we would have an investment in. I am just as anxious to get out of business as you are.

Mr. GOLDSBOROUGH. What do you think of the probability of the original home owner who puts up only 10 percent on his home not having it sold from under him? Of course I know in some cases these

homes will be paid off, but I am talking about the collective purchaser and not the single purchaser.

Mr. JONES. I do not think it makes a great deal of difference whether they pay 10, 20, or 30 percent or nothing, and if you make the payment small enough—which the bill does—it will about equal rent.

Mr. GOLDSBOROUGH. I am talking about the standpoint of the home owner.

Mr. JONES. Yes. I think it makes no difference whether they pay 10 percent, or 20 percent, or 30 percent, or nothing, if the monthly payments are something like rent. I do not believe for instance if there were no down payment or if only 10 percent it would make a great deal of difference. We have completed the purchase of 10,935 F. H. A. loans. Very few are delinquent. We have only foreclosed on about 40 and 30 of them were not well-selected loans, but got in trouble due to some local legislation about sewerage or something like that. They do not amount to very much, being about $2,000 apiece. The payments have been very regular. We have agreed to purchase about 15,700 loans but after the applicants got our commitment they sold 2,353 of the mortgages some place else although they had paid us a commitment fee of one-half percent. We collected something like $55,000 in commitment fees on mortgages sold elsewhere.

Mr. GOLDSBOROUGH. Mr. Jones.

Mr. JONES. May I finish?

Mr. GOLDSBOROUGH. I thought you had finished.

Mr. JONES. Of the 10,935 loans we have 1,771 paid entirely, or we have sold them—one of the two. We buy at 99½ and sell them 101. We have that coverage there to take care of the expense. I do not think we will have any delinquencies to speak of. I think the percentage of delinquency will be very small.

Mr. GOLDSBOROUGH. I do not doubt that a moment and I say this in a very complimentary sense, unless we have been very much misinformed the loans extended by the R. F. C. have been rigidly selected.

Mr. JONES. Not these F. H. A. loans.

Mr. GOLDSBOROUGH. They are only 2 years old.

Mr. JONES. They are only 2 years old but for many years I built and sold homes on the installment plan and never lost a dollar on any of them. I do not know whether we are as frugal now as we were 25 years ago but I have no fear about this being an expensive operation for the Government. The only thing I am afraid of is that they will not use it.

Mr. FISH. You say you have enough money to finance it?

Mr. JONES. The amount is limited to $50,000,000. The President said he expected to ask the R. F. C. for up to $50,000,000.

Mr. FISH. Is that all the money you will pay——

Mr. ABNER H. FERGUSON. This could continue under the provision authorizing the R. F. C. to buy debentures.

Mr. JONES. I think, as in the case of the RFC Mortgage Co. we will start this machinery going. If we cannot get anyone else to organize a national mortgage association the President will ask the R. F. C. to do it.

Mr. FISH. And the most you will put up will be $50,000,000?

Mr. JONES. We could not go much beyond that because we do not have the authority.

Mr. FISH. If that is all you are going to put up, do you not think you ought to have additional legislation to make it possible to put up more?

Mr. JONES. No; we have the legislation.

Mr. FISH. They limit you to $50,000,000.

Mr. JONES. That is the capital?

Mr. FISH. Yes.

Mr. JONES. If we put up $50,000,000 and we are fortunate enough to get somebody to put up $25,000,000 and multiply that by 21, which can be done by selling Government-guaranteed debentures——

Mr. LUCE (interposing). Are they Government-guaranteed?

Mr. JONES. Yes.

Mr. LUCE. Only through insured mortgages?

Mr. JONES. Yes.

Mr. GIFFORD. Do you not think under this plan of insuring mortgages that will dry up the activity of the other fellow in business?

Mr. JONES. I do not think it will. I do not think that altogether it will do harm to the building-and-loan associations and savings banks.

Mr. HANCOCK. Mr. Jones, assuming it may be desirable for the R. F. C. to set up a national mortgage association, provided its operations are restricted to large-scale projects, what is the sense in one governmental agency insuring another against loss?

Mr. JONES. You had better answer that since you are making the laws.

Mr. HANCOCK. We have not made this one yet. I would like to have an answer to that, if you have a good one, because I think it is important before passing on this legislation. You see the whole theory or philosophy of the F. H. A. is there was to be no Government lending but they were simply to stimulate lending by making it safer for other agencies to furnish the money. And the announced purpose of these amendments is to encourage housing and home owning through private enterprise. Are we doing that or something else?

Mr. JONES. The Government would not insure our investment in the stock.

Mr. HANCOCK. I am talking about the purchase of the insured mortgages.

Mr. JONES. We are buying them and selling them.

Mr. HANCOCK. That is exactly what I thought. You are serving more or less as a broker. You are also acting as a mortgage-discount bank.

Mr. JONES. We have sold about $7,000,000 of these mortgages.

Mr. HANCOCK. Then too, the fact that you are able and willing to take them sort of adds attractiveness and strength to them?

Mr. JONES. I do not know.

Mr. HANCOCK. The public thinks so, do they not?

Mr. JONES. I expect a lot of people do.

Mr. HANCOCK. Mr. Jones, I would like to know what is your diagnosis of the economy of a country whereby it is more attractive usually for a citizen to rent a home than to own it. What is wrong with an economy that seems to make it more financially attractive for

its citizens to rent rather than own homes? Is it building cost, lack of easy terms and low-interest cost or what not?

Mr. JONES. I am sorry but I cannot answer that.

Mr. FORD. I would like to hear an answer to that.

Mr. HANCOCK. I gladly yield to the gentleman from California. [Laughter.]

Mr. FORD. I will tell you what has been the trouble is too much interest.

The CHAIRMAN. And too many incidental charges.

Mr. FORD. Plus incidental charges which have a great deal to do with it.

Mr. HANCOCK. All those things enter into the rent? The tenant has to pay them in the last analysis.

Mr. GOLDSBOROUGH. Let me ask one question.

The CHAIRMAN. Let me make this suggestion at this point which I think is pertinent. I do not see anything unconstitutional in the mechanics of this bill insofar as one department of the Government attempts to insure another department of the Government against loss. The R. F. C. has to act as a substitute temporarily for the private investor and the buying contemplated by the R. F. C. will inaugurate and set this machinery going so that the investment will be observed by private enterprise and the purpose is to always keep the R. F. C. free from any direct loss, that this plan of temproary service is included in this bill.

Mr. HANCOCK. I was not criticizing that practice. I was merely seeking light as to its practical operations. But are we not colliding with the original purpose of the F. H. A. I am certain that we are and the public should understand it.

Mr. LUCE. May I shed a little light on Mr. Hancock's question. The Federal Mortgage Corporation issued $7,000,000 worth of bonds and swapped them with the Federal land bank for other bonds which were not guaranteed and the R. F. C. took quite a quantity of those bonds, I think.

Mr. JONES. Yes.

Mr. LUCE. So that is a case of one agency insuring another.

Mr. JONES. We do not have to do it any more.

Mr. LUCE. What?

Mr. JONES. We do not have to do it any more.

Mr. LUCE. But you did do that?

Mr. JONES. Oh, yes; in the beginning.

Mr. PATMAN. Mr. Chairman, I would like to ask Mr. Jones a question.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. It is contemplated this will encourage mass production of homes rather than individual building of homes.

Mr. JONES. It should.

Mr. PATMAN. It is contemplated that the mass producer can deal directly with the sawmills and the lumber manufacturers and with the manufacturers of plumbing and heating material, with all these different people in purcahsing the different commodities that go into making the homes and thereby save the middleman's profit and many other expenses that are originally connected with the building of individual homes? Is that right?

Mr. JONES. I think that is part of the theory of the bill.

Mr. PATMAN. And it is thought by doing that so that homes can be constructed at much lower cost. I just wondered, Mr. Jones, if we should do it just another way so as to give the same encouragement to local people. I am apprehensive if some concern should go to Houston, Tex., to engage in the building of a project embracing four or five hundred homes and expect to deal with people out of Houston, Tex., all the time, buy the lumber from some other place, buy the hardware from some other place and the plumbing and electrical equipment from some other place, and everything that is needed, I am just wondering what effect that will have on the local people, and especially the local dealers. I just wonder if something should not be done to encourage those local people to do it instead of having some large concern or some outsider do it. Do you see what I am driving at?

Mr. JONES. I do.

Mr. PATMAN. What do you think of that?

Mr. JONES. I think that will be the effect of this act.

Mr. PATMAN. You think that will be the effect of this act?

Mr. JONES. I do not believe the mass producer will reap the principal benefits of this act.

Mr. PATMAN. You do not believe that they will?

Mr. JONES. No.

Mr. PATMAN. You think the individuals will make their own contracts under this act and deal with local people entirely?

Mr. JONES. I think there is plenty of competition all over the United States.

Mr. PATMAN. You think there is plenty of competition all over the United States?

Mr. JONES. Among the material people; yes, sir.

Mr. PATMAN. And you think this will encourage the building of individual units?

Mr. JONES. Yes, sir.

Mr. PATMAN. As much as it will encourage mass production?

Mr. JONES. More.

Mr. PATMAN. It has been suggested to me by having mass production, like some contractor was expected to build some four or five hundred units there in Houston and the carpenters and electricians and plumbers should become just a little bit unreasonable about their wages that public sentiment would be against them by reason of the size of the project and the number of people engaged in the work and the number of people expecting to occupy the homes when finished and therefore it would be more desirable to have mass production than individual effort. Do you believe that to be true?

Mr. JONES. I do not think that will be the effect.

Mr. PATMAN. You do not think that will be true?

Mr. JONES. I do not believe that will be the effect.

Mr. PATMAN. I have a list of the independent people involved.

Mr. JONES. Yes.

Mr. PATMAN. There are 21,000 retail building and material firms and they employ 101,000 people, and 31,000 retail hardware dealers, employing 88,000 people; sawmills 9,000, employing 26,000 people; heating and plumbing 5,000, employing 21,000 people; and then I have paint, glass, wallpaper, electrical supplies, radiators, household appliances, tools, and cabinet work, all of them amounting to 96,922, employing 349,000 people with an annual pay roll of $300,000,000,

so I am glad to get assurance from you that this legislation will not have a tendency to cause these peopel to be discriminated against and that they will be encouraged under this law just as much as the mass producer.

Mr. JONES. I think they will.

Mr. PATMAN. Mr. Jones, of course one of the objects of this is to afford relief, is it not?

Mr. JONES. Yes.

Mr. PATMAN. One of the principal objects?

Mr. JONES. Yes.

Mr. PATMAN. Do you not believe it would be a fine thing if this Government would take the billion two hundred million dollars sterile gold and use it for relief to go out in the grass roots?

Mr. JONES. I would not care to enter a discussion of that kind as I have made no study of it.

Mr. PATMAN. If it was used to buy bonds it would increase the excess or reserve of the banks, but if used for relief purposes, even on the farm bill, do you not think it would have the effect of extending more relief than anything else that has been done?

Mr. JONES. I would not want to attempt to answer you because I do not feel qualified to do so.

Mr. PATMAN. I feel you are as well qualified as any man in America.

Mr. JONES. I have made no study of it is what I mean.

Mr. PATMAN. That is all I desire to ask you.

Mr. MCKEOUGH. Following that line of questioning by Mr. Patman, this proposed bill has a maximum of $6,000 on individual homes having a 90-percent mortgage. From your study, do you believe that is high enough to cover the entire picture of a transcontinental country such as this with a view to stimulating the business that we seek to have stimulated?

Mr. JONES. I do not think it makes a great deal of difference if you can get 80 percent on a home costing more than $6,000.

Mr. MCKEOUGH. On the other hand we are seeking to bring homes to the mass workers and a $6,000 maximum I think might be somewhat rigid in certain cities such as New York, Chicago, and Philadelphia, and other largely populated centers, and I wonder if you would have any objection to there being some elasticity in the provision such as $7,000 to $7,500 maximum in cities of 500,000 population or over?

Mr. JONES. I think it would make no difference. I had nothing to do with drawing the bill.

Mr. MCKEOUGH. I am seeking your opinion.

Mr. JONES. This is a F. H. A. bill. I do not think it would be seriously objected to if you increased it some. It might be helpful.

Mr. WOLCOTT. To go back to this question of national mortgage associations, in the law now we provide for a capitalization of $5,000,000 and we require that all be paid in cash or Government securities and in the amendment which is proposed we require that 25 percent of the capital be paid in in cash or Government securities or first mortgages or such other liens as are described in section 301 of the act. That is apparently for the purpose of inducing private capital to come in so that these national mortgage associations may be organized.

Do you not think that if that is the purpose of this amendment it might not be well to reduce the required capital of the National Mortgage Association to say $3,000,000 or $2,000,000 and a half?

Mr. JONES. What is it now?

Mr. FERGUSON. It is $2,000,000 now. It was reduced in 1935.

Mr. WOLCOTT. I have a pamphlet of the laws here which was issued in 1937, page 42, subsection (d) of section 301, title III, under "National Mortgage Association."

Mr. WILLIAMS. The amendments are in the back of that.

Mr. JONES. I made the suggestion that they make that a little more elastic as people might not have the cash or Government bonds but may have good first mortgages, and they should be allowed to issue debentures against insured loans. I think that is just as sound and as safe.

Mr. WOLCOTT. That is written in here.

Mr. JONES. That is one reason they could not get anybody to organize.

Mr. WOLCOTT. Now there is a fundamental question involved here in which I have been interested. From the statement the President made in his message it appears that for the 7-year period preceding 1930 the average annual construction was 800,000 units and from 1930 to 1937 the average annual construction of units has been only 180,000.

Who furnished the capital and credits for the construction of the 800,000 units previous to 1930?

Mr. JONES. Private capital.

Mr. WOLCOTT. What is that?

Mr. JONES. Private investors.

Mr. WOLCOTT. The fundamental question we have to consider here is why private investors have not furnished those same credits since then.

Mr. JONES. There are a good many contributing reasons. One is the thing we have referred to, the unhappy experience in mortgage-money lending. Another is, there is still timidity among those with capital to invest.

Mr. WOLCOTT. Why is capital timid about investing?

Mr. JONES. You tell me.

Mr. WOLCOTT. I do not want to use your expression as an argument against you.

Mr. JONES. I do not mind.

Mr. WOLCOTT. Was it at Seattle, Wash., that you made the statement in a speech that prosperity had returned?

Mr. JONES. I do not claim to be infallible.

Mr. WOLCOTT. Was it at Seattle you made a speech in the summer wherein you said prosperity has returned and business is good everywhere?

Mr. JONES. It was when I made that speech.

Mr. WOLCOTT. I have been told that you made that speech in July.

Mr. JONES. I did not speak in Seattle. Probably I have been talking too much. I know that. [Laughter.]

Mr. WOLCOTT. I do not recall whether it was Seattle or not. I may be confusing that with a speech made by Miss Perkins for which you are of course not responsible, but in that speech some time this summer you expressed yourself as optimistic because we had had a return of prosperity and business was good, and as a matter of fact I inferred from your remarks that we were in a boom period.

Mr. JONES. Out of the woods.

Mr. WOLCOTT. I was told that at that time our business was about 90 percent normal and the report of the Federal Reserve Board about that time disclosed the fact that the bank credit was only about 50 percent normal. Now, we may safely assume therefore that 40 percent of our business was being done on Government manufactured credit.

Mr. JONES. A very substantial percentage. I do not know what it is to be exact.

Mr. WOLCOTT. I do not pretend that those are the actual figures.

Mr. JONES. Yes, sir.

Mr. WOLCOTT. Now, has it not been apparent then that until business gets over this timidity and creates its own credit to the extent that credit will continue to flow from natural and normal sources that the Government has got to continue to furnish the credits upon which business does its business?

Mr. JONES. I think to a very large extent.

Mr. WOLCOTT. What can we do to thaw out some of this slushy credit lying around in the banks idle? I ask that because if we can do that it probably will not be necessary to extend the powers of the Government to extend credits which private capital otherwise should extend.

Mr. JONES. I think this is a small step in the right direction.

Mr. WOLCOTT. It might be a small step in the right direction but the right direction in the opinion of the administration seems to be we have got to continue to furnish Government credit until such time as private enterprise is induced to resume the furnishing of credits. That is why I say this question is fundamental, what can we do here in Congress to induce industry to create its own credits?

Now, we can see the result of doing business under Government control and on manufactured credits. The moment that the President makes a sincere statement that he is going to balance the Budget there is an immediate reaction in commodity prices and stock prices because of course if we balance the Budget the balancing of the Budget must be predicated upon withdrawal of Government credits. In other words, we have got to stop spending Government money to create those credits.

I may have been mistaken, but I have blamed the recession in business and the drop in the value of stocks to the statements by the President that he was going to balance the Budget which presupposes we were going to stop manufacturing credits, and I think I am justified in that statement.

Are we not just putting the cart before the horse in this prticular thing? Can we not accomplish this same purpose by holding out the olive branch to business and give it assurance that the Government is going to have from now on a stable and perhaps more friendly poilcy concerning business relationships, especially the Government's attitude toward business? Do you not think that if we were to do that then we would find it unnecessary to furnish credit such as we are doing in this bill?

Mr. JONES. I think that there ought to be a better understanding between Government and business.

Mr. KOPPLEMAN. Louder.

Mr. JONES. Perhaps I do not want to be too loud.

Mr. WOLCOTT. I do not want you to commit yourself to any program how that should be done, but if that were done——

Mr. TRANSUE (interposing). May I interrupt?

Mr. JONES. I have stated publicly I do not understand the recession in business.

Mr. WOLCOTT. I hope I have been able to inform you somewhat on that question. I say that facetiously, of course.

Mr. SPENCE. May I interrupt?

Mr. JONES. I would like to make one statement. I think the Government can extend credit, I think we have proved the Government can extend credit that is not available from private sources without affecting the Budget.

Mr. WOLCOTT. If credit is not available from private sources it becomes increasingly necessary for the Government to manufacture credit, and does it not all get back to this? You have said that business was timid about credit, about creating credit. Are they not timid because of the lack of certainty concerning governmental policies and is that not due to the fact that the different agencies of the Government have never been able to get together and follow a definite policy?

When you were making that speech which I hope at least reflected the business conditions at the time it was made, the Federal Reserve Board was apparently getting concerned about the velocity of credit to the extent they wre raising the reserve requirements to stop this flow of credit. Although we had not approached our goal of 1926 prosperity we were up to 90 percent of it and they were so fearful we would go way beyond that even when we were at 90 percent they started putting the brakes on. Why was one department of the Government urging a rise in prices as the panacea for all our economic ills and another Federal agency, through which the banks have been furnished these credits, putting the brakes on to prevent further rise in commodity prices? As a consequence was it not obvious the business reaction was "We do not know whether we are in for another period of inflation or deflation" and they became static in their planning?

Mr. FORD. May I interject?

Mr. GOLDSBOROUGH. Mr. Crawford has been seeking recognition for some time.

Mr. CRAWFORD. Mr. Jones, you made two very brief observations which have been touched on by Mr. Wolcott. One was that few applications had been made because of the hazards in the real estate realm.

Mr. JONES. Yes.

Mr. CRAWFORD. I do not know whether you would like to elaborate on that a little bit.

Mr. JONES. Mortgage bonds.

Mr. CRAWFORD. You have reference to mortgage bonds?

Mr. JONES. Yes.

Mr. CRAWFORD. There was one other thought you brought out that I am very much interested in and I think the country should know about it, and that is the fact the R. F. C. had demonstrated that credit can be furnished to private industry without affecting the Federal Budget. Would you clarify that just a little bit, because I think there are a lot of people who do not understand how that can be done.

Mr. JONES. Well, the Government guarantees the Federal farm mortgage bonds and the H. O. L. C. and they are behind the F. H. A. There is a contingent liability. If the agencies are properly administered there is very little loss. Although we have loaned $100,000,000 that is regarded as an expenditure but I think the loaning on security should not affect the Budget.

Mr. CRAWFORD. From year to year.

Mr. JONES. From year to year.

Mr. CRAWFORD. Then there is just one other thought. That is you were expressing the thought a while ago that this might not work out as set forth in this plan, because the people would not go along with it.

What particular phase of this bill could you point out which in your opinion will cause the public to now go along?

Mr. JONES. You could not pass a more liberal act than that. If people will not go along with that, I don't think you can do anything else.

Mr. CRAWFORD. In other words, the liberalism of the bill is what you have faith in?

Mr. JONES. Yes.

Mr. LUCE. One other feature of the bill that I think you have not touched upon is that the bill contemplates the Government taking a hand in regulating the interest paid. What would be in your judgment the effect upon your institution, the R. F. C., if we established a precedent by legislation, rates of interest?

Mr. JONES. You mean by Congress?

Mr. LUCE. Yes.

Mr. JONES. I think that we prefer to fix our own rates. I heard you ask some question as to interest. I wonder if that is what you had in mind?

Mr. LUCE. Yes.

Mr. JONES. This rate is around 5¼.

Mr. FISH. Five.

Mr. JONES. I think it is high enough.

Mr. CRAWFORD. At the present time.

Mr. JONES. I think it is high enough even taking into account savings banks and building and loan associations, I do not believe, if properly administered, it will be expensive to the Government.

Mr. LUCE. Of course you must have gathered yesterday my apprehension as to the effect of the Government embarking upon a policy which will endanger the prosperity of the thrift institutions of the country.

Mr. JONES. I do not believe this will have that effect. There is so little difference, and after all there is always more fear in these thngs than is justified.

Mr. LUCE. Undoubtedly; but the camel gets his head under the tent and goes in.

Mr. JONES. He has not done much so far.

Mr. GIFFORD. Since we can follow the corporate-device method, the Budget would not be affected. The losses would not be reflected until finally shown when the corporation was dissolved or liquidated.

Mr. JONES. That is right.

Mr. GIFFORD. You have given away perhaps 2½ billion dollars. What do you think of our being asked to appropriate the money and save this distorted picture?

Mr. JONES. You appropriated it.

Mr. GIFFORD. The Treasury subscribed to 500,000,000 stock and took 4,000,000,000 bonds?

Mr. JONES. Yes.

Mr. GIFFORD. And that is still carried as an asset?

Mr. JONES. But you turned around and gave 2½ away.

Mr. GIFFORD. The Treasury does not reflect it.

Mr. JONES. I think they do.

Mr. GIFFORD. If you can find it I will be glad to see that.

Mr. JONES. I think it is reflected.

Mr. GIFFORD. It is reflected in one particular way, but nowhere does it reflect the actual losses. The capital stock of your concern is worth nothing.

Mr. JONES. It is when you give us back the money you have taken away.

Mr. GIFFORD. Shall Congress be asked to put in their Budget 2½ billion dollars?

Mr. JONES. I think we will be up here talking to you about it later. I do not think that will affect the current Budget.

Mr. GIFFORD. We are looking to the future.

Mr. JONES. This is the past.

Mr. GIFFORD. You have given away our money.

Mr. JONES. We did not give it away. You gave it away.

Mr. GIFFORD. You still carry it as an asset.

Mr. JONES. I do not know whether it is an asset or not. We have it charged up to the individual members of Congress. [Laughter.[

Mr. CRAWFORD. On this question Mr. Luce asked and you answered with reference to 5 percent being high enough, would there be any relation to refunding the present short-term obligations of the Treasury into long-term obligations and the rate of interest likely to prevail? In other words, suppose we converted 15 billion short paper into long paper, would that affect the rate?

Mr. JONES. Yes; make it higher.

Mr. CRAWFORD. So when that time comes this 5 percent might not be reasonably high?

Mr. JONES. Oh, no. I believe Government borrowing will go on as long as we have a Government.

Mr. CRAWFORD. In this large volume?

Mr. JONES. I do not see why not.

Mr. MCGRANERY. I just wanted to ask one question in relation to this matter of interest. The Government has been augmenting private loaning facilities at a rate under that of private institutions. Do you think that activity thus far has resulted in a lowering of private lending rates?

Mr. JONES. I think it has some.

Mr. MCGRANERY. Have you any idea what the result has been?

Mr. JONES. No; but the rates are not too low now.

Mr. MCGRANERY. Would you say they are about the average?

Mr. JONES. I could not answer.

The CHAIRMAN. Mr. Ford wants to ask a question.

Mr. FORD. Mr. Wolcott insists the present recession is due to Government interference with business.

Mr. WOLCOTT. I do not.

Mr. FORD. You said there was no confidence in the Government.

Mr. WOLCOTT. I insist the present recession is due to the threat of the President that he was going to withdraw governmental credits.

Mr. FORD. There was no threat in 1929 there was going to be any withdrawal and yet we all know what happened.

Mr. WOLCOTT. That is no answer.

Mr. FORD. Yes; it is.

Mr. WOLCOTT. The mere fact some Republican, if you want to put it that way, is to blame for the recession does not make it any different as far as I am concerned.

Mr. FORD. You are blaming it on a Democrat.

Mr. WOLCOTT. I am facing the conditions in 1937 and I cannot answer for what happened in 1929.

Mr. FORD. There is no parallel.

Mr. MCKEOUGH. Mr. Chairman.

The CHAIRMAN. I just did not want to interrupt this discussion.

Mr. HANCOCK. Mr. Jones, do you think it is sound business practice to encourage a man to purchase a home in excess of $6,000 and only have a 10 percent interest or equity in it? I am thinking primarily of the borrowers' welfare and protection in asking this question.

Mr. JONES. I think it is a good thing.

Mr. HANCOCK. You think it is a good thing? Do you think a man who is able to own and maintain a home costing in excess of $6,000 should be encouraged to purchase with only a 10 percent payment?

Mr. JONES. Yes; that is better than renting. I do not think there is any harm in it.

Mr. SPENCE. Where is the law passed giving the R. F. C. authority to come to the assistance of the National Mortgage Association?

Mr. JONES. Have you that, Mr. Ferguson?

Mr. ABNER H. FERGUSON. It is printed as an appendix to our act.

Mr. SPENCE. It gives permission to purchase stock, does it not?

Mr. ABNER H. FERGUSON. Yes.

Mr. SPENCE. Do you think that might authorize you to organize a Federal mortgage association?

Mr. ABNER H. FERGUSON. I think if we got individuals to put in a small amount of money.

Mr. SPENCE. But isn't the purpose of this thing to have the individual organize this? Does not the initiative come from the local fellows that want to organize?

Mr. JONES. We furnish most of the money. We require 50 percent.

Mr. SPENCE. The fact you have the right to purchase stock does not give you the right to organize.

We in our individual capacities have a right to purchase the stock, but we do not have the right to organize a corporation.

Mr. JONES. How does that read?

Mr. ABNER H. FERGUSON. The R. F. C. is authorized to subscribe to mortgage-loan organizations under title III.

Mr. JONES. That does not mean we would organize it.

Mr. SPENCE. It does not mean you would effectively direct it. In other words it would be a decentralization of a centralized function?

Mr. JONES. That is right.

Mr. FARLEY. I just wanted to bring out this one thing. Who fixes the interest rates that the Government pays on their bonds?

Mr. JONES. The Treasury.

Mr. FARLEY. The Treasury itself? It is not done by any legislative action?

Mr. JONES. No.

Mr. FARLEY. That is just the answer I would like. I do not think we ought to set interest rates by legislative action, but I think rather it ought to be in the hands of the Administration to handle that as the market goes.

Mr. JONES. My understanding is you limit them, but do not set them.

Mr. FARLEY. Limit it to 5 percent as a maximum?

Mr. JONES. I think that is about right.

Mr. FARLEY. Do you think that is the proper thing to do?

Mr. TRANSUE. My question is this, in addition to help, Would it not help to have more cooperation from business?

Mr. JONES. Yes.

Mr. TRANSUE. That is a material thing.

Mr. JONES. It must be material.

Mr. TRANSUE. If one has helped to bring about the recession had not the other also brought about the recession?

Mr. JONES. I do not know what part it had.

Mr. TRANSUE. I am asking for your opinion.

Mr. JONES. I think you have got to have cooperation between business and government.

Mr. MCKEOUGH. You surely do not take the position, Mr. Jones, in the light of your wide experience as head of the Reconstruction Finance Corporation that anything the President or the present National Administration has attempted to accomplish has caused the temporary recession?

Mr. JONES. No.

Mr. MCKEOUGH. On the contrary, I presume you would be willing to make the statement it has done everything possible within human ingenuity to create a better picture?

Mr. JONES. Yes.

Mr. WOLCOTT. What inducement has Government given to business to cooperate at all? Just a couple of weeks ago they were going to do something for business.

Mr. JONES. I think it has given business a lot more than I could enumerate.

Mr. WOLCOTT. I wish you would do so because I was foolish enough to think I might prepare a speech along that line.

Mr. JONES. I will help you prepare it.

Mr. GIFFORD. Is it not something like this, you say to the grocer "Send me two dozen eggs and if they are good I will send you my check." He says, "No, you send me your check and if it is good I will send you the eggs." That is about the attitude between Government and business at this time. [Laughter.]

Mr. JONES. That is your question and the answer to it.

Mr. TRANSUE. Who do you suggest throw the eggs? [Laughter.]

Mr. GIFFORD. Everything has come out as we told you.

Mr. FISH. Let us get away from this political subject. I meant to ask about the interest rates. I am fearful it will come down to the question of your establishing the National Mortgage Association and private capital may not come into it, judging by the past. If you set up a National Mortgage Association and put your money in it and loan your money——

Mr. JONES (interposing). Does the law provide that?

Mr. FERGUSON. No.

Mr. JONES. We will assist as far as we can. I have in mind also other people in the business, like building and loan associations trying to cooperate with the F. R. C.

Mr. FISH. You built these houses. You probably know more about it than all of us on this committee, and it is important to keep the interets rate as low as possible if the owner is to keep the home. I am very much interested in getting the interest rate as low as possible. It seems to me the Government does not want to make a profit.

Mr. JONES. No; but it should not take a loss.

Mr. FISH. You can raise money at 3 percent and less.

Mr. JONES. That is tax-free money. This is not. You can buy a Government bond and get about 3 percent. That is no trouble and no risk. If you buy a small loan or make a mortgage loan on it costs money to service it and it costs money to make it and I think if we would get this down to about a 5 percent rate that is as low as we ought to go.

Mr. FISH. How much can the Government get the money for?

Mr. JONES. They can get it for 3 percent if they borrow it.

Mr. FISH. If they can borrow it at 3 percent why should they have to dole it out at 5?

Mr. JONES. When you put it out in small quantities the cost of administration would probably be 5. We are operating on one-half in the R. F. C., but we have had big figures. You take a Nation-wide organization and I suspect it would cost about 1½.

Mr. FISH. We hope it is going to be enormous. Suppose it goes to three or four billion dollars, why could you not get that down as you do, under 1 percent? You operate under 1 percent.

Mr. JONES. We have volume. When you get volume you can lower the rate.

Mr. FISH. If you have volume enough you can get it down to 4.

Mr. JONES. Or 4½.

Mr. FISH. That is 1 percent. I am willing to go further. I think the Government ought to take a loss on operating expenses not only to put people to work but to put them in their own homes, and I think you and I agree that it is a thing that does more to promote the well-being of the country than any other one thing.

Mr. JONES. That is right.

Mr. FISH. Can you make every effort to get this down to 4 percent?

Mr. JONES. We are not the operators.

Mr. FISH. You will own one-fifth of the National Mortgage Association.

Mr. JONES. If we had the limit it would be the rate fixed in the bill and we would not start under that probably.

Mr. FISH. Do you know what rate is fixed in the bill?

Mr. JONES. 5 percent.

Mr. FISH. Is it fixed?

The CHAIRMAN. No.

Mr. MCGRANERY. That is the top limit, not to exceed 5 percent.

Mr. FISH. That does not mean it cannot be 4 or 5½?

Mr. JONES. That does not mean it cannot be 4 or 3½.

Mr. FISH. Would it not be your desire to cut that down to 3½ or 4?

Mr. JONES. Yes; but if you tell me to operate on my own capital then I have got to get enough out of it to operate.

Mr. FISH. Just because we put it 5 percent does not mean it has to be 5 percent?

Mr. JONES. No.

Mr. FISH. And if the volume is enough you can reduce it?

Mr. JONES. If the volume is enough we can reduce it.

Mr. FISH. I am hopeful we can get it down to 3 even if the Government pays some of the cost of administration.

Mr. WOLCOTT. Do you think the 5 percent should include service charge? At the present time we are given to understand the actual rate of interest to the borrower is 5.62 percent.

Mr. JONES. Not under this Federal Housing.

Mr. FORD. That was under title I.

Mr. WOLCOTT. The service charge made up the difference. There is a service charge—examination fee, appraisal fee, and examination of the abstract.

Mr. HANCOCK. That is one-half on title II.

Mr. WOLCOTT. Do you not think any maximum or minimum rate of interest which we put on that should be actual and include the service charge?

Mr. JONES. It includes the overhead?

Mr. WOLCOTT. Yes.

Mr. JONES. I could not qualify on that.

Mr. WOLCOTT. In other words the service fee could be taken into consideration in determining the amount to be charged as interest?

Mr. JONES. I do not know whether I follow you.

Mr. WOLCOTT. Well, if an examination fee we will say of $25 is charged and an appraisal fee of $25, we might use the arbitrary amount of $50?

Mr. JONES. Yes.

Mr. WOLCOTT. Should that $50 be taken into consideration and spread over the length of the term of the mortgage instead of compelling the home owner to make immediate payment?

Mr. JONES. I expect that could be covered.

Mr. WOLCOTT. Could that be covered in the rate of interest charged?

Mr. JONES. I think it could be worked out in the Administration.

The CHAIRMAN. Do you not think it is important that we do not hamstring the Administration under this act so as to defeat the purpose we have in mind?

Mr. JONES. You want to fix the maximum?

The CHAIRMAN. If we fix it too low we are liable to defeat our plan.

Mr. FISH. Mr. Jones, have you gone over this act?

Mr. JONES. I have not read the act, but I have read the changes in the act.

Mr. FISH. Do you approve of this legislation?

Mr. JONES. Yes.

Mr. FISH. Do you think it will accomplish the result expected that is to create new homes in the country?

Mr. JONES. I think it will be helpful.

Mr. FISH. Are you willing to say it will be more than helpful? Do you think it will accomplish the results desired?

Mr. JONES. I think I have said as much as I want to.

Mr. FISH. Do you want to make any suggestions in the way of amendments to this legislation that would be helpful?

Mr. JONES. I would not know how to write it any better.

Mr. McKeough. Will the gentleman yield right there?

Mr. Fish. Yes.

Mr. McKeough. I asked the question earlier of you if you thought it might not be well to raise the maximum of $6,000 in cities with a population of 500,000 to a higher figure, and as I understood your answer, Mr. Jones, you told me you thought it might be helpful.

Mr. Jones. Personally I see no objection, but I would not confine it to the larger cities.

Mr. McKeough. There is a distinction in cost between the heavier populated cities and with that in mind I thought there ought to be a higher ceiling.

Mr. Jones. That was our experience.

Mr. Spence. Can you put lending institutions, insured under title IV—what influence does the Administration here use on lending institutions?

Mr. Jones. I do not know the exact mechanics.

Mr. Spence. I knew that was not in your department but I thought probably you knew.

Mr. Jones. I think they are doing a pretty good job and they formerly had a good deal of latitude.

Mr. Hancock. Considerable moral suasion is used at times, is it not?

Mr. Spence. You know from your experience in dealing with these financial institutions they can put them on terms where they would be no advantage to them.

Mr. Jones. No.

Mr. McGranery. On the matter of Federal land bank loans we are now charging 3½-percent interest, are we not?

Mr. Jones. I do not know.

Mr. McGranery. That is the law. It is 3½-percent interest. Inasmuch as that is the interest to one group of people for that type of loan, do you see any reason why the ordinary terms of every day quality do not require the same rate of 3½ percent being made available to borrowers of the H. O. L. C.?

Mr. Jones. I do not believe in having any difference, but there may be a difference in the administration of these loans. I think they operate through the Federal land bank.

Mr. McGranery. They have no more volume than H. O. L. C.

Mr. Jones. The Federal land bank has 3½.

Mr. McGranery. And they do not have any more volume than H. O. L. C.

Mr. Jones. You are talking about H. O. L. C.?

Mr. McGranery. H. O. L. C., that is right. In other words, if Federal land borrowers are entitled to 3½ percent why in heaven's name are not H. O. L. C. people entitled to 3½ percent?

Mr. Jones. That is a matter of administration. I do not know.

The Chairman. Gentlemen, we will adjourn at this time to meet tomorrow at 10:30 a. m.

(Whereupon, at 12:30 p. m., the committee adjourned until 10:30 a. m., Thursday, December 2, 1937.)

AMENDMENTS TO NATIONAL HOUSING ACT

THURSDAY, DECEMBER 2, 1937

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Goldsborough, Reilly, Hancock, Williams, Spence, Farley, Ford of California, Brown, Clark, Patman, McKeough, Evans, Transue, McGranery, Barry, Wolcott, Fish, Luce, Crawford, Gamble.

The committee had under consideration H. R. 8520, the Admiknistration Housing bill.

The Chairman. Gentlemen, the committee will come to order. We have with ur Mr. Eccles this morning who will discuss the bill.

Mr. Eccles, you may proceed. The committee will be glad to hear you.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Eccles. I know of no financial mechanism that is available, or that could be created or enlarged, that is as well able to take care of the adequate financing of the construction of homes to rent and homes to own, as that provided under the Federal Housing Administration law and proposed amendments. There has been considerable said about the high cost of this type of financing. The proposals under consideration, both through regulation and legislation, would put a maximum interest rate of 5 percent.

It has been said that on account of the Government guaranty this rate was altogether too high. There is a misconception as to the Government guaranty in many quarters. The Government does not guarantee a 5-percent mortgage. If the mortgage defaults the lender must foreclose that mortgage at his expense and deliver title to the F. H. A. The F. H. A. then gives the lender a debenture which is guaranteed by the Government and bears 3 percent interest so the Government does not guaranty a 5-percent obligation; but it finally ends up, after the lender has absorbed the expense of foreclosure, in a 3-percent guaranteed debenture.

Mr. Hancock. Who pays the expense of foreclosure?

Mr. Eccles. The lender.

Mr. Reilly. Is it added to the final bill?

Mr. Eccles. No.

Mr. Hancock. That expense is filed with the F. H. A. for reimbursement, is it not?

Mr. ECCLES. He gets a certificate of claim if the property is sold for more than the amount of the principal and the interest, which, of course, is pretty remote, and I do not think the lender gives that much attention.

Mr. HANCOCK. The reason I asked, I did not think you wanted to leave the record in that shape.

Mr. ECCLES. I was thinking from the standpoint of practical purposes he is likely to absorb the foreclosure cost and any lender, I am sure, would figure that way. A 5-percent insured loan running for a period of 20 years calling for monthly payments, it must be recognized, is not equivalent to owning a 5-percent bond. There is a good deal of expense attached to the making of the loan in the first instance and secondly to the collection over a period of 20 years in small monthly payments.

Mr. GOLDSBOROUGH. Now, Governor Eccles, what is the average interest paid on Government bonds?

Mr. ECCLES. Well, of course it depends on the maturity. The average yield, I think, yesterday, on bonds running 8 years or more was 2.57 percent.

Mr. GOLDSBOROUGH. Then a 3-percent Government bond is a pretty good proposition, is it not?

That is what these debentures are?

Mr. ECCLES. The long-term 20-year government bond would be yielding, I suppose, 2¾ percent or very close to it. I am speaking of the average yield. The rate that has been charged here has been compared with the English rate. As I understand it the building societies make their loans there at a rate of 4½ percent.

Mr. GOLDSBOROUGH. May I interrupt there just a moment in order to carry out my thought?

Mr. ECCLES. Yes, sir.

Mr. GOLDSBOROUGH. The bank or lending institution gets a 3 percent Government guaranteed debenture which is equivalent insofar as the bank is concerned to a Government bond.

Mr. ECCLES. It is not tax free as a Government bond is.

Mr. GOLDSBOROUGH. It is probable those bonds were selling for a hundred, do you not think so?

Mr. ECCLES. No; with the tax, they would not. They may on today's market. It would depend entirely.

Mr. GOLDSBOROUGH. The Government has been protecting the bankers on Government bonds ever since the depression started, and if the banks did not want these debentures they could sell them and invest in 6 percent securities. In other words, I think we ought to clarify the statement and understand what it means when the banks get a 3 percent debenture guaranteed by the Government that it is a security almost immediately convertible into cash.

Mr. ECCLES. Of course, if they did not get that they would not be interested in making a loan at 5 percent in the first instance. The point I am making is they are not guaranteed 5 percent.

Mr. GOLDSBOROUGH. Of course if they were getting a 5 percent guarantee by the Government they would be worth probably 125, and that would not be right at all.

Mr. ECCLES. No. Speaking of the English rate, a 4½ percent rate; as I understand it at the end of the 10-year period they have the right to adjust the rate based upon what the rate structure is at that time, so in making a long-term loan of 20 years they are not speculating upon what the inflationary or deflationary situation may be for that entire period. The rates have come down from 5½ to 4½ over a period of the last several years. For a 90-percent loan or an 80-percent loan, 5-percent interest with a quarter percent insurance on the small properties and a half on the other loans is a low financing cost by comparison with anything that we have every been accustomed to in this country. The virtue of this set-up is that it permits without discrimination every type of lending institution to make loans and get the benefit of the insured mortgage. It is available for all of the citizens of the country. The insured mortgage instrument is one instrument instead of two and three, such as we had during the 20's with the first, second, and third mortgages, which proved to be so disastrous during the depression.

Mr. HANCOCK. It took a superman to get out from under the old straight mortgage system, did it not, Governor?

It was almost like the frog trying to get out of the well.

Mr. ECCLES. They did not get out. The H. O. L. C. was created for the purpose of providing an amortized long-term mortgage and funded over $3,000,000,000 of mortgages they were unable to get out from under. It has been proven that the long-term amortized mortgage is the soundest type of mortgage that can be developed. Where the monthly payment is not low, when difficulties arise, the borrower is likely to discontinue making payments and rent a place because the rent payment is substantially less than the payment that he may be required to pay.

I do not think it practicable to get in great volume the home construction by the masses of our people except on a basis where the monthly payment is very close to what the rental payment would be.

Mr. GOLDSBOROUGH. You mean what would be normal rental payment?

Mr. ECCLES. That is right; the average rental payment over a normal period.

Mr. MCKEOUGH. May I interrupt, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. MCKEOUGH. Your study has included the possibility of improving the present unemployment situation by home construction, I presume, and I also presume as part of your investigation you entered into the study of the average income of the great masses of the people you hope will be able to get in shape to buy a home. I wonder if your study has developed whether there ought to be a minimum wage level, such as the 40-cent-an-hour rate, established in order to better insure to the large number of workers, who would be affected, a better opportunity to own their homes.

Mr. ECCLES. No; we have made no studies with reference to that matter. At least I have not.

Mr. FORD. Governor, may I ask a question?

Mr. ECCLES. Certainly.

Mr. FORD. This may be apparently a crazy question, but in these loans is not this what we do—we insure the mortgagee and the mortgagor pays a monthly amount to insure that mortgage; does he not?

Mr. ECCLES. That is right.

Mr. FORD. The builder builds the building and gets out and he is clear out?

Mr. ECCLES. That is right.

Mr. FORD. The materialman furnishes the materials, is paid, and he gets clear out?

Mr. ECCLES. That is right.

Mr. FORD. But the fellow that comes along and buys the place has an equity in there for 10 percent. Would there be any way to devise another insurance fund to insure that equity?

Mr. ECCLES. Not unless someone paid for it.

Mr. FORD. If he (the owner) paid for it?

Mr. ECCLES. That again includes the question of cost. The only way it seems to me that the cost can be reduced would be through some kind of subsidy. Now this whole program is designed for the purpose of getting away from any direct subsidy, where the Government does stand in the background in order to be able to get this type of credit through private lending agencies on the basis proposed.

Mr. FORD. There is a risk all the way through. The man that loans the money is taking a risk. The other people are not taking any, but the fellow that buys the property is taking a risk. Now, I wonder if there could not be some method providing for insuring his equity?

Mr. ECCLES. That might be given some study. It may be, but I do not think it would be practicable to insure a loan to the lending institution beyond the proposals. Of course as to the down payment made by the borrower, whether it be on a home or anything else, there is always a risk if he is unable to keep up his payments, and how can you provide a mechanism to insure that? I cannot conceive of a way of doing it and I doubt if it is necessary and I know that I do not think it is necessary.

Mr. FORD. A few years ago everybody said that if you would insure a mortgage that would be crazy.

Mr. ECCLES. The 10-percent down payment applies only to the small individual homes.

Mr. FORD. I understand that.

Mr. ECCLES. The places for rental will likely be the larger developments and the great volume of building, particularly in the cities or industrial areas will likely be placed for rental and will be of the limited dividend type or be of the walk-up apartment type that is based on an 80-percent loan.

Mr. HANCOCK. Governor, do you understand that the 5-percent interest rate would cover all the charges allowed other than the insurance premium?

Mr. ECCLES. Well, there are some charges such as title, such as the drawing of papers, et cetera, but they are charges I think that are incidental in case any loan is made whether it be an insured loan or whether it be a loan made by the lending institution without insurance.

Mr. HANCOCK. I did not have in mind that character of charge. I am just wondering whether it is your understanding that brokerage and other similar fees would be permissible.

Mr. ECCLES. I think by regulation they should be eliminated.

Mr. HANCOCK. I am also wondering whether you think by regulation it should not be required that the borrower take out a certain amount of life insurance in order to have his mortgage insured. Are additional costs of this kind going to be permitted, that is what I am trying to find out.

Mr. ECCLES. Well, that may involve a question whether he could get life insurance. It would slow the thing down. I think that is something that might be thought of later on when you have a building boom, but I question now whether you should put any more restrictions around this program when the thing we are anxious to do is get construction.

Mr. HANCOCK. I know in the past the F. H. A. claimed that it had nothing to do with those charges, but by this new program it will be a little more restrictive so it will give the F. H. A. wider control in matters of that kind so as to insure that people who want to build and own homes can get the money at the rates in the bill, so when they advertise 5 percent the advertisement will be honest.

Mr. ECCLES. I think they have powers to regulate in a pretty broad manner the conditions under which a loan is to be insured so as to protect the borrower.

Mr. LUCE. Governor, if this program should go into effect would there be any cause remaining for commercial banks to engage in the real-estate business?

Mr. ECCLES. Commercial banks do not engage in the real-estate business today with reference to their demand deposits. They are permitted only to make real-estate loans up to 60 percent of their savings or their time deposits, and outside of New England, your section of the country, and New York, the savings are in the savings department of the commercial bank. The banks do not do strictly a commercial banking business. In fact more than one-half of the deposits of the smaller banks are savings deposits. In many cases they go as high as 80 percent of the total deposits and it is not only proper but absolutely essential in the interest of the community that those banks will put their time funds into the investment field. They, during the twenties invested those funds largely in collateral loans and in real-estate mortgage bonds, and in other types of bonds which were supposed to be readily marketable, and the bad bonds, foreign bonds, and others sold to banks had more to do with their collapse than the real-estate mortgages did. This type of mortgage which would syphon the funds in the community back into the community instead of the funds in the community into the money market in the purchase of all types of bonds seems to me to be a much more constructive use of the savings funds of the people in the respective communities, and a 20-year amortized loan that is getting better each year through payments being made together with this mutual insurance feature is, it seems to me, an excellent place to put private funds—in the construction field rather than putting funds into Government bonds and have the Government in turn undertake to do the financing.

Mr. LUCE. You will recall that four or five of our State banks, which we call trust companies, went on the rocks because of their financing of apartment houses and similar construction. The statement you have just made makes me wonder how you are going to prevent banks from putting their money into securities that the Government guarantees or insures.

My original question was aimed particularly at this matter of State banks taking mortgages on real estate. I wonder if the passage of this law would not warrant us in forbidding them from doing that, compel them to take securities that are insured instead of the mortgages themselves.

I may say that personally for a long time I have felt the biggest reform we could make in the banking field would be to separate the commercial and investment banking.

Mr. ECCLES. That is a big subject and will require a complete reorganization of our whole banking structure from the grass roots to bring about such a separation.

Mr. LUCE. It struck me that this bill is based upon that theory in effect that you are to have insured certificates instead of mortgages in the bank portfolios.

Mr. ECCLES. Well, you are going to have insured mortgages, not insured certificates. You would have insured mortgages in the bank portfolio, but the insured mortgages in the bank portfolio, as in the case of national banks and State member banks, which are affiliated with the Federal Reserve Board, are restricted to 60 percent of their time funds in the amount that they can hold in mortgages.

Mr. LUCE. But the suffering of the people is just as great whether the smashup comes from time deposits or what.

Mr. ECCLES. That is true; but the fact that they own mortgages does not necessarily mean that is responsible for the smashup, and I feel perfectly sure that if banks were prohibited from holding in their portfolio insured mortgages such as proposed, it would in no way lessen the danger of the smashup.

In fact I think it would engender it because banks then would be compelled to put their funds in the investment market and they would likely experience what they experienced before. They would be undertaking to buy miscellaneous kinds of bonds, other types of outlets for their funds or they would undertake to buy strictly Government bonds and in that case they would not be directing private funds into private construction. As long as the banks are permitted to and do have the savings funds to the extent that they do, then they must, it seems to me, be expected to find an outlet for those funds in a manner that will best serve the community interests where they are located; and it seems to me that there is no better place to put the savings funds of the people in the community than in the home-construction field through a system of amortized mortgages.

Mr. LUCE. With that I quite agree. I was simply trying to develop the point that the banks would no longer have the occasion or temptation to finance mortgages that are not insured.

Mr. ECCLES. Well the mortgages that are not insured can be loaned on only up to 60 percent.

Mr. LUCE. I appreciate that.

Mr. ECCLES. And for 10 years, and there are a good many cases where you will find that the borrowers may want only a 50- or 40- or 60-percent loan, and they may want a straight loan for 5 years. A bank can make a straight loan for 5 years, I think for 50 percent, or it may be the person may not want to borrow in excess of 10 years, and in which case they must pay 40 percent of the payment over the 10-year period.

Mr. FISH. Mr. Chairman, may I ask a question?

The CHAIRMAN. Certainly.

Mr. FISH. Now you very apparently are familiar with all the details of this legislation and the required legislation and I would like to be enlightened.

There is a matter connected with this bill that worries me a good deal and that is the mutual-mortgage insurance which was carried in the original bill and a half of 1 percent was put up by the home owner in this bond for the purpose of paying for these losses incurred by lending institutions and then building up the fund so as a mutual proposition it would pay off the mortgages of the home owners. That was the original purpose, as I understood, of the bill and of that fund.

Now it appears that some amendment has been made in the Appropriations Committee of the House of Representatives which permits retention for running expenses up to $5,000,000 a year out of this fund which is a mutual fund.

I ask you, Is that fair play, is that equitable, and is that playing fair with this committee after we have set up a mutual-mortgage fund for this purpose? I hope you will clear that up, as that is a very serious charge that has been made here.

Mr. ECCLES. I would prefer, the F. H. A. people being more familiar with such legislation—if any has been passed—than I am, that they explain it.

The thing I am interested in primarily was to develop a mechanism that would provide for the financing of all types of home construction, both for owner occupancy and for rental purposes, by private capital. As to the disposition of the mutual-mortgage fund, the detail of that I am not familiar with and as I say, I would prefer that they [the F. H. A.] answer that. It seems to me, however, that like any insurance company, the first year's premium more often is taken to pay the expenses. I think every life-insurance company figures that more than the first year's premium is required to put the business on the books of the insurance company.

Mr. FISH. Governor, they are required to have a large fund in reserve. All we had to start with was a $10,000,000 appropriation or nest egg from the Government and we loaned $600,000,000 and I do not think you would say that was sufficient.

Mr. ECCLES. Of course one or two things could happen. If that is not sufficient, the Government could appropriate more to make it sufficient or they could wait until such time as the fund is sufficient.

Mr. FISH. Of course the purpose of the fund was written into the law and this fund was established as a mutual fund to be put aside and go back to the home owner to pay the mortgage, but all of a sudden we find the Appropriations Committee has acted, so far as I know, without the knowledge of a single member of this committee.

Mr. ABNER H. FERGUSON. Mr. Fish, may I interrupt?

Mr. FISH. Yes, sir.

Mr. ABNER H. FERGUSON. I propose at the conclusion of the testimony of all the witnesses to discuss this matter fully.

Mr. FISH. I wanted to get his ideas. It has raised a very serious question. Has the Governor any suggestions to make in the way of possible reduction of interest rates?

Mr. ECCLES. There is one way the 5-percent rate can be brought down.

Mr. PATMAN. May I interrupt?

Mr. Eccles. Merely fixing in the law not to exceed a certain rate does not mean that the rate is going to be brought down. It might merely mean the lending institutions would not be interested in making a loan. It is a perfectly easy thing to offer Government bonds on other securities on the market at some fixed rate, but you do not have any assurance they will be purchased. Merely saying this rate ought to be 4½ or 3½ percent, and fixing it in the law, does not accomplish anything because the thing we want to do is to fix the very maximum rate, the lowest possible rate we can interest private capital in, and our survey would assure us that the 5-percent rate on this type of loan, that does involve a good deal of work and a good deal of expense, is as low as it is possible to get it.

Over a period of time, with experienced people, and with the establishment of a proposed national mortgage association having a capital of perhaps $50,000,000, upon which debentures can be issued and sold, that may tend to bring down the rates in this manner. If the mortgage association would offer to buy, stand ready to buy the insured mortgages, say at a 4-percent rate, lenders may be willing to sell those mortgages or make those loans on a basis of 4½ or 4¾ percent, retaining the half or three-fourths for the servicing, which is necessary on a monthly payment loan.

Even though the mortgage association buys the mortgage it would be like an insurance company taking the mortgage. They always have agents in the field to service the mortgages. The mortgage associations buying at the rate of 4 percent, it may tend to bring the rate down to 4½ or 4¾, but the mortgage association would, of course, sell its debentures secured by these mortgages to the public on a 1- to 20-year basis because the mortgages they hold they would be collecting payments over a period of from 1 to 20 years. If these debentures could be sold on a basis of 3½ percent——

Mr. Fish. That is what I want to know.

Mr. Eccles. Or 3¼ percent, depending on what the money market situation is then, of course, it may tend to bring down this rate.

Mr. Fish. You do not maintain because these banking institutions if they get money at 3¼ they have to charge 5 percent?

Mr. Eccles. That is right.

Mr. Fish. Is not 1 percent sufficient, if they get it at 3 they could put it out for 4?

Mr. Eccles. Yes; but the highest grade bonds, the ones which are not taxed offer today a yield of 3½ percent. That is the triple A, that is the very highest grade of bonds. Your long-term Government bonds yield very close to 3 percent, that is the very long-term ones. The short-term ones get down as low as 2 percent or around that figure, but the average is about, as I said a moment ago, approximately 3.6.

Mr. Patman (interposing). You mean 2.6.

Mr. Eccles. I mean 2.6. All other securities, of course, are going to have a comparative relationship to the most favorable security which is the Government bond, because of its more ready marketability, because of the tax-free feature, because it is acceptable as an investment by every type of institution and fund. These debentures of the mortgage association would, of course, not be tax free and if we want to bring down the rate one way to do it would be to make those debentures of the mortgage association tax free. Of course I am not advocating that. I merely mention what seems to be to be a fact, that you have here a security which is not tax free and therefore would likely sell on the market, and it could possibly cut down on the average as low as 3½ percent.

Mr. Fish. For this reason the interest should be lower to the home owners.

Mr. Eccles. It cannot be helped.

Mr. Fish. I think I would almost be willing to sacrifice my own principles to do that.

Mr. Eccles. That would tend to create a market on a favorable basis. It would tend in turn to enable the mortgage association to stand ready to buy these mortgages which in turn would bring down the lending rate by the institutions in the first instance because of the marketability.

Mr. Fish. That is the first constructive thing that has been said about lowering the rate by anybody that has appeared before this committee.

Mr. Eccles. That is the only way that it woud tend to bring down the rate and lessen the financing cost to the borrower without some direct subsidy, and the idea at this time certainly seems to be to get private capital without subsidy to provide for private construction and homes.

The Government has provided through one other agency, the United States Housing Authority which does have a tax-free security, that is its bonds are tax free, and, of course, that is a subsidy, a subsidized Government housing project set up to provide housing for a group of people that it is recognized, needs or must have a subsidy.

Mr. Fish. And does not promote home ownership?

Mr. Eccles. No, sir; on the other hand, this bill is not set up for the purpose of providing a subsidy to people to get homes, only for the purpose of reducing the financing cost of places to rent beyond what can be done through a mechanism that the Government helps to create, but without a subsidy.

Mr. Luce. If such a privilege were guaranteed, would it be possible to spread its benefits between the single cheap houses and the apartment houses?

Mr. Eccles. There is not any question but that the Congress could, I suppose, provide a subsidy in any field that they chose to. Because, in other words, in the small housing field, it would be very easy to provide a direct subsidy in that field without its applying in the other field; but it would seem to me that at this time nothing of that sort is called for or desirable, and that certainly we should undertake to have this thing stand upon its own feet with the Government in the background, as is proposed.

Mr. Patman. I would like to ask some questions.

The Chairman. Is this a different line of questioning?

Mr. Patman. Yes, sir; this is a different line.

The Chairman. Mr. Crawford has been asking for recognition for some time. The Chair recognizes Mr. Crawford.

Mr. Crawford. What would you think about amending this proposed bill now before us so as to fix the maximum rate at 4 percent and then make the debentures of the association tax free, put that rate in the law instead of 5 percent?

Mr. ECCLES. I think that would defeat the program completely. I think you would find no institution willing to make a loan. They would much prefer to go out and buy these readily marketable securities that yield 3½ percent, and some are very good that yield 4 percent, that involves no onus of foreclosure, no trouble of monthly-payment plan, that involves no expense of absorption of foreclosure. Even with the 5½ percent the F. H. A. has had, there have been far less than possibly half the lending institutions that could qualify that have qualified.

Mr. CRAWFORD. In other words it would be necessary for the yield on these securities to which you have just referred, to drop lower so as to create a wider margin between the proposed housing debentures and what is on the market?

Mr. ECCLES. That is right.

Mr. CRAWFORD. May I ask you this question on that? Do I understand from you now that the commercial banks which have savings departments such as we have out in the Middle West in many cases, can go ahead and invest in this type of operation entirely beyond the 60-percent limitation which is now on those banks?

Mr. ECCLES. As I understand it they are limited in the total amount of their real-estate mortgage loans, which would also include the insured loans, to 60 percent of their time and savings deposits.

Mr. CRAWFORD. So after the enactment of this bill, in the event it goes through as proposed, there would still be a limit of 60 percent?

Mr. ECCLES. That is correct. However, the 60 percent would not cover the debentures these lending institutions could buy. Now there are going to be a good many agencies other than banks that will loan these funds and sell their insured mortgages to mortgage associations, and the mortgage associations will in turn sell upon the investment market these debentures. The effect of that would be to siphon funds from one part of the country where there are the excess funds into a part of the country where funds are not available for mortgage loans to the extent necessary, and that is true, as you know, throughout the country. All types of lending and fiduciary institutions can invest in these debentures and those that do not care to engage in the direct field at a higher rate can purchase these debentures at a substantially lower rate.

Mr. CRAWFORD. Let me ask you this on that same subject. Going back to the recent statement of the Administrator of the Federal Deposit Insurance Corporation, in his remarks as to certain policies of certain members of the F. D. I. C., would it be your opinion then that banks, members of the F. D. I. C. would be following a saner and safer investment policy by using their savings deposits in this type of adventure rather than practicing the method of buying bonds that they follow at the present time?

Mr. ECCLES. I think so, because the average little banks throughout the country are not in a position because they lack the facilities for determining the true value of the numerous securities which are offered on the market. We know as a result of past experience that a great many mistakes were made in the bond investment policy of banks, and this is a matter in which the risk is far less and the service to the community is far greater.

Mr. CRAWFORD. I think that is further indicated based on the experience of the last 2 or 3 years, that the F. D. I. C. Administrator feels that same practice is going on.

Mr. ECCLES. I think this is true that with the very low rate of interest that developed on very high grade securities and on Government bonds, last December the average rate on long-term Governments was 2.27, and the average rate on your highest grade bonds got down very close to 3 percent and some securities were floated at even less than 3 percent. Such rates where banks were paying 2½ percent, as many of them were, on savings deposits, forced them for the need of breaking even or paying expenses into the field of bonds that were second grade, such as some of the railroad securities and other securities as well, that were yielding 4 and 4½ percent, and which with the recession that exists have dropped precipitously.

Does that answer the question?

Mr. CRAWFORD. Yes, sir; thank you.

The CHAIRMAN. Governor, as to the limitation of 60 percent that banks may loan on real estate, you are speaking now of national banks?

Mr. ECCLES. Yes; national banks is what I am speaking of.

The CHAIRMAN. Mr. Patman is recognized.

Mr. PATMAN. Governor Eccles, this is intended as a relief measure, is it not, this housing bill?

Mr. ECCLES. Not relief if you think of relief as temporary.

Mr. PATMAN. I think of it in this way. We are in a little recession right now. Something has got to be done to stimulate the use and purchase of durable goods and stimulate the employment of labor. I presume those are the two purposes of this bill?

Mr. ECCLES. The purpose of the bill is, of course, to encourage more home construction on a basis that will be more favorable to the borrower and on a basis which at the same time will be safe and sound and for the lasting interest. It is a mechanism to try to interest people who want homes to try to secure them. It is for the purpose of inducing lending institutions throughout the country in order to find an outlet for funds to use this mechanism for that purpose, while at the same time doing it on a financing or mortgage basis which is sound, rather than on a basis of a high interest rate and the second mortgage mechanism that is unsound. The effect of that would be of course to increase employment in the housing field directly, and throughout the economy as a result of increased activity in the housing field.

Mr. PATMAN. I am receiving complaints from local dealers. It is contended in this proposal that it is encouraging what could be called the big operator plan. Take for instance in Houston, Tex., the big operator would make arrangements to build four or five hundred units, more or less, and in that way he would ignore the local dealers, the lumber dealers, hardware dealers, cement and all the other dealers who would ordinarily have something to do with the construction. It is claimed that even the insurance would be carried by outside concerns and the local dealers would not benefit any, and they seem to think something should be done toward encouraging them as well as encouraging the big operator.

Will you tell the committee what you think about that? Do you believe it will discourage the local operators or will they have the same opportunity as the big operator?

Mr. ECCLES. I think where you find the construction industry depressed that certainly the local dealer is in anything but a prosperous condition. We know that it is not possible or desirable to get a large

expansion in the construction industry on a basis of too high a cost of either material, labor, or finance. The thing primarily that we are interested in, taking the country as a whole, is to get more and better housing for our people on a basis that they can afford to rent or afford to buy.

Any group which stands between the desire of the Government to accomplish that—no group should be permitted to stand in the way of the Government doing what it can do to accomplish that sound economic and social object. I do not believe that the small operator will be as badly off with a lot of building activity, even if it is to be stimulated by large-scale production, as he will be if there is no activity. I do not believe that he necessarily needs to lose the business locally. It may be that he will have to sell cheaper than he would at local retail prices, but we must choose either between higher cost and no construction, forcing and attempting to protect the higher retail prices and high labor cost, and in that case, unemployment and Government relief, or we must choose to provide a mechanism that will create a large volume of housing on a basis for the mass market.

Now, it seems to me that those are the alternatives.

Mr. PATMAN. I wonder if it would be well for us to consider encouraging the building either locally by the Government establishing local agencies to supervise the work where people could go and get disinterested expert advice and even have inspectors to supervise the construction where it is going on, and in that way they would cooperate to the extent that they could probably get a better price on materials and probably deal with labor in a satisfactory way. It is my understanding that you are reducing interest rates and you want to reduce the cost of material, and you want fair wages for labor. Do you not think it could be done that way, Governor, and at the same time encourage local business just a little more than this bill would encourage it?

Mr. ECCLES. I think this bill tends to set up a mechanism that will do more than any other thing I know of to bring down labor and material cost. Material costs are already coming down very rapidly. In fact some material costs, as far as the manufacturer is concerned, have gone lower than they possibly can be maintained. The effects of these low costs have not entirely come out yet to the consumer, but in the building field, due to the competitive shift from a seller's market last spring with a lot of forward buying to a buyer's market now with high excessive inventories and stocks, those costs are coming down except in a few monopolistic and maybe controlled specialty lines, and where local retailers either through collusion or one way or another are attempting to hold up prices by agreement. The question of labor costs, even at the higher labor hourly rates of last year, in many of the areas the annual wage, I understand was very low, because of the lack of volume of business. People could not afford to buy and could not afford to pay rents that made building profitable to rent.

There are a great many sections of the country outside of the larger metropolitan areas where both labor costs and material costs today are on an attractive basis or getting there very fast, and with this financial mechanism I think there will be some inducement for building.

Mr. PATMAN. Every witness appearing before this committee since the special session, every witness in authority, I have asked that witness about the sterile gold and asked that witness what he thought about using it now. Since this housing law will probably stimulate business, although I do not believe it will be sufficient as seems to be the opinion of those that discussed it, I just wonder if the Governor would give us the benefit of his views about what we should do about that idle gold at this time, if anything, if it could be used to advantage to bring us out of this recession.

Mr. ECCLES. I would prefer not to discuss that question.

Mr. PATMAN. I would not insist on it.

Mr. ECCLES. It seems to me that the question can only have an indirect bearing upon this subject and the use of gold, depending how it was used. Of course it could be reflationary in character and possibly have little effect. What seems to me to be the first essential is to try to get the economy back in balance. It got badly out of balance, out of equilibrium with farm prices going down since last spring and, in certain fields, labor cost going up, and with that, cost of materials of all kinds, with little or no increase in the income of the unorganized worker.

Now I do not believe at the moment we could accomplish very much by attempting to hold prices up by an inflationary process if we expect to get some of the necessary adjustment which is going on very rapidly. The rapidity with which it is being made seems to me to be favorable. It seems to me to indicate an adjustment to a basis upon which we can build a more sound structure than would have been possible had an effort been made to continue the inflationary development of last spring which would have only put certain groups within our economy, the farmer and the unorganized worker, to a disadvantage.

Mr. MCKEOUGH. Mr. Chairman, may I ask the witness a question?

The CHAIRMAN. Certainly.

Mr. MCKEOUGH. I take it, Governor, that this proposal is a substitute for the recently enacted national housing program that called for a Government subsidy. It is my recollection in the closing hours of the last session when this committee was considering the national housing legislation, similar recommendations to those now incorporated in this proposed enactment were offered to this committee to be included in the then being considered national housing bill. Is that correct?

Mr. ECCLES. Well, to quite a large extent, but not entirely. The 90 percent was not in those proposals.

Mr. MCKEOUGH. The philosophy of this was in those proposals?

Mr. ECCLES. Yes.

Mr. MCKEOUGH. I take it the Administration is now moving away from the direct subsidy idea they provided for the national housing authorities by this program to invite private capital into the situation and merely have the Government back of the mortgage-insurance feature rather than a direct 100-percent subsidy and continued contribution to the maintenance of this low-cost housing. Is that correct?

Mr. ECCLES. That is correct.

Mr. MCKEOUGH. I wonder what is the cause of the rapid abandonment of the old theory? What is the cause of the new philosophy? Is it purely to balance the Budget that we have abandoned the national housing program and substituted therefor this proposal?

Mr. ECCLES. I do not think there is any abandonment of any housing program. So far as I know the housing program that was passed to provide for the low-income group is being administered. It was never intended, so far as I know, to subsidize housing for the people as a whole. Such a thing of course would be impracticable and impossible.

Mr. McKEOUGH. But the fact is in accordance with the President's message he points out, and I think very correctly, that in the large centers of population 60 to 80 percent of the citizens in those areas are renters.

Mr. ECCLES. In some they would not average that.

Mr. McKEOUGH. I think that would be typical of New York, Chicago, Philadelphia, and other large industrial northern cities.

Mr. ECCLES. Possibly right in the cities it may be true.

Mr. McKEOUGH. I am wondering with this proposal with a maximum of a 90-percent loan on a $6,000 maximum-price home, whether it is going to be any benefit to those larger population areas, and if it is not, what is the practical possibility of stimulating construction with that great bulk of the people removed from these so-called benefits under this proposal?

Mr. ECCLES. The 90-percent loan on an individual home of course will not help much in the few great metropolitan centers because people do not live in individual homes. They have got to get out of the cities into the suburban areas. It is desirable that they should. It seems to me that instead of encouraging a greater congestion in the cities and paying higher land costs in order to build places, which must rent for rates higher than most people can pay, it would be more desirable to get out of the cities.

Mr. McKEOUGH. One more thing, and I do not want to delay because there is a roll call in the House, but you made a reference in answer to Mr. Patman's question about the national economy getting out of balance with great rapidity since last spring, indicating in your opinion it was because the farmer was being paid out of parity and likewise the great army of the unorganized workers were suffering. I have no quarrel with that statement. I am just wondering if you are willing to indicate you are in sympathy with the proposals of the administration to bring about by the special session of Congress now in session the enactment of a crop-control bill and a minimum-wage and maximum-hour bill?

Mr. ECCLES. I would prefer not to express myself with reference to either one of those bills.

Mr. McKEOUGH. I am talking about the proposals, not the various pieces of legislation. Are you in favor of the proposal?

Mr. ECCLES. To answer that question "yes" or "no" could only be misunderstood. I could answer it "yes and no."

Mr. McKEOUGH. Yes and no. That is not the attitude of the entire Administration is it Governor?

Mr. ECCLES. I cannot speak for the rest of the Administration.

Mr. HANCOCK. Governor Eccles, if this program is enacted and becomes a real success in accomplishing the objects which you have so clearly stated will it not be necessary that the Administration have the wholehearted cooperation of all lending institutions in the United States. Certainly no legislation should be enacted which would destroy any legitimate home-financing institution.

Mr. ECCLES. That will be very helpful. However, the Mortgage Association, it seems to me will go along ways toward bringing about that condition more fully than would be the case without a mortgage association providing a right market. I would like to say this about the mortgage association——

Mr. HANCOCK (interposing). Is it not a fact that you want the mortgage association to serve as sort of a lead horse?

Mr. ECCLES. We want it to provide a market for these insured loans which are made, and as a matter of fact the mortgage associations can only make loans directly on the large limited dividend projects. Ordinarily they would not make loans directly on the projects under $200,000.

Mr. HANCOCK. There is some doubt in my mind about the present language, but you may be correct.

Mr. ECCLES. Thus it does not go into direct lending with private institutions, but it does provide a market for loans which they may make.

Mr. HANCOCK. The point I am trying to make is just this: We do not want to do anything by this legislation that perhaps helps in one place but destroys in another and therefore it is essential that the legislation be practical, fair, and sound, and I am just wondering in the light of the number of institutions that have been carrying on building programs in this country for many, many years and have made a reasonable success of it, do you think those institutions which have to pay dividends or interest on all their thrift funds can continue to secure money from savers today; service their loans and render a constructive service to their communities and be successful on an interest rate of less than 5 percent? Remember, I am for the lowest rate for home owners we can consistently and soundly work out.

Mr. ECCLES. You are speaking, I assume, of the building and loan associations and the savings associations?

Mr. HANCOCK. Particularly the building and loan cooperatives, savings banks, and other legitimate home-financing institutions.

Mr. ECCLES. I do not think that you can today operate on less than a 5-percent basis. They certainly cannot and pay 3—as many of them do—and 3½ and even 4 percent to their certificate holders who in many instances have become savings depositors because they are permitted to do so. Contrary to the practice of the savings and loan (building) associations of Great Britain which are largely mutual, as I understand it, and do not operate as deposit institutions in our sense, our savings and loan associations do in my opinion operate to a great extent as deposit institutions.

Mr. HANCOCK. I thought it was a matter of record that a very large percentage of our building societies do not. Are you not in error about that?

Mr. ECCLES. I am saying that a good many of them do permit withdrawals of funds on demand or upon a very short period of time. Now, of course, it is difficult to operate on a demand basis or upon even a quasi basis of demand, and at the same time hold long-term securities to the extent necessary where interest is paid. Now I think that 3 percent might well be paid, or maybe even 3½ percent paid if a 5-percent loan rate is established.

Mr. HANCOCK. Governor, you would not expect the ordinary individual to invest in any private financial institution at 2½ or 2¾ per-

cent when he could turn around in the open market and buy a Government bond that would yield 3 percent, would you?

Mr. ECCLES. Well, they do.

Mr. TRANSUE. Mr. Chairman, there is a call on the floor of the House and I suggest we adjourn and come back later.

Mr. HANCOCK. I should like to complete this discussion at a later date. I do feel that I have made my own position clear.

Mr. TRANSUE. I so move you, Mr. Chairman.

The CHAIRMAN. All right, gentlemen, we will meet tomorrow at 10:30.

Mr. ECCLES. I would like not to be misunderstood.

Mr. ABNER H. FERGUSON. Mr. Chairman, may I make a statement for 2 minutes?

The CHAIRMAN. Yes.

Mr. ABNER H. FERGUSON. In connection with the question Mr. Fish asked.

Mr. MCKEOUGH. In the light of Mr. Fish's absence I do not think that would be appropriate at this time.

Mr. ABNER H. FERGUSON. I only want to state here that the clear intention when the Housing Act was passed, as appears from the hearing, was that this fund should pay the expense of administration and that requirement is written into the act.

The CHAIRMAN. All right, we will adjourn until 10:30 o'clock tomorrow morning.

(Whereupon, at 12:15 p. m., the committee adjourned until 10:30 a. m., Friday, December 3, 1937.)

AMENDMENTS TO NATIONAL HOUSING ACT

FRIDAY, DECEMBER 3, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Goldsborough, Reilly, Hancock, Williams, Spence, Farley, Meeks, Kopplemann, Ford of California, Brown, Patman, McKeough, Evans, Transue, McGranery, Barry, Wolcott, Fish, Luce, and Crawford.

The committee had under consideration H. R. 8520, the administration housing bill.

The CHAIRMAN. All right, gentlemen, the committee will come to order.

Governor Eccles, you may resume your statement, please.

STATEMENT OF MARRINER S. ECCLES—Resumed

Mr. ECCLES. A good deal has been said about this high interest charge of 5 percent, which means a total charge of 5¼ and 5½ percent. It includes one-quarter for mortgage insurance on the small properties and one-half on the larger properties. Five percent is the real interest rate that the lending institution gets. If it were possible to get a lower rate, I certainly would be for doing so. However, the Government offers a baby bond that after the second year pays all the way from 2 to 2.9 percent if it is matured and has, as I understand, a tax-free feature as well. Lending institutions such as savings banks or building and loan companies, particularly the building and loan companies that do a considerable business in selling certificates maturing over a period of time, naturally have to pay more than the Government offers to pay. They have to pay, in order to attract private funds at all, 3 percent and 3½ percent. It therefore becomes quite impossible to ask that they loan money at 3 or 3 percent and assume the expense of making the loan and of collecting payments and foreclosure costs in case the loan is not paid. The question in my mind is how attractive to lending institutions under that kind of set-up a 5-percent rate is likely to be.

As far as the borrower is concerned, there is the insurance which to him is the same as interest, and which makes a total rate of 5¼ to 5½. If a lower cost is expected, it cannot be effected, it seems to me, unless some form of subsidy is given to the borrower. I am not advocating that. I am merely pointing out what seem to me to be the obvious situation.

Mr. Goldsborough. When you say that is a 5-percent rate, the interest and amortization is paid by the month?

Mr. Eccles. That is right.

Mr. Goldsborough. That amounts to over 6 percent?

Mr. Eccles. No; 5 percent on the balance. It is not discounted. It is a true interest, 5 percent paid on the unpaid balance. They get credit for the payment.

Mr. Goldsborough. Yes, I know; but the interest is paid monthly.

Mr. Eccles. It is in an amortized loan. It is in a monthly payment.

Mr. Goldsborough. But if you will make your calculation you will find that the interest as contrasted with interest paid annually is over 6 percent.

Mr. Eccles. No; I would not agree on that. There may be some very slight difference, but it is slight. There are few obligations where the interest is paid annually. Practically all bonds that are issued are paid either quarterly or semiannually, and on every type of interest-bearing obligation the interest is usually paid quarterly and seldom less than semiannually.

Mr. Goldsborough. Now, in my district prior to 1929 and for 20 years prior to 1929, or 30 years, the interest payment on savings was 4 percent. The banks charged us 6 percent straight for loans on mortgages and they all got rich.

Mr. Eccles. I do not know of very many. I think the record of the banks for the last 10 years will not show that many of them got rich.

Mr. Goldsborough. I was not speaking of banks for the last 10 years. Of course the system of percentage reserves resulted in the failure of all the banks in the country, but I was speaking of the period of relative normalcy, the period from the turn of the century until 1929, and that period was a period of great prosperity for the bankers.

Mr. Eccles. I do not know what rate was charged in your district. You say that was 6 percent. I suppose that was on a straight 50-percent mortgage.

Mr. Goldsborough. Oh no, 75 percent.

Mr. Eccles. Banks of course were prohibited, that is, the national banks and most State banks were prohibited from making more than 50-percent mortgages. I do not know what the laws of Maryland are, but 50 percent is the customary base in making mortgages and there were no monthly payments. They were straight mortgages usually, and that was the type of lending. However, this is true: If a borrower should borrow 90 percent on a home, or if a builder borrowed sufficient to build properties for rent, he would in nearly every instance place a first mortgage, a second mortgage, and sometimes a third mortgage, and the cost of that financing during the twenties for the 90- or 80-percent loan was better than 10 percent.

Mr. Goldsborough. Of course, that is true, but your contention is, as I understand it, these mortgages are perfectly safe, these 90-percent mortgages.

Mr. Eccles. Yes; that is correct. That is right, as safe, so far as the institution is concerned. I would not make a 90-percent loan without the benefit of insurance and the benefit of the 3-percent debenture.

Mr. Goldsborough. You are talking about the guaranteed loan, just simply betting on the future?

Mr. Eccles. That is right. The borrower, however, as a result of that type of loan did not get the benefit of a greatly reduced cost. The point I am trying to make is, the cost of this financing is less than half the cost of similar financing, and I do not know how you can get the cost less than is proposed here unless the Government itself either makes a subsidy of some kind or itself goes into the business of doing all the lending. So far as private institutions are concerned, it is not possible for them to attract public funds and go to the expense of handling those funds and loaning the money and making the collections, at less than the return provided in this proposal.

Mr. Transue. Mr. Chairman.

The Chairman. Just a moment.

Mr. Transue. Yes, sir.

The Chairman. Governor, I do not think there is any difference as to the view that it is desirable to lower interest rates on loans for home construction wherever it is possible to do it. We all agree to that, but that is not the chief purpose of this bill. If we had a situation that presented no problem except high interest rates that would be a thing to which we might very well concern ourselves with, which we might attempt to deal with, but we are trying to stimulate activity not with the regard to interest rates to be paid, but we want to get business going and that is the purpose of this bill, not to hamstring the activity of this kind but to try to stimulate it, so we want to be sure we do not put an interest rate in here that will defeat the purposes of the bill and I hope, and we have every reason to believe, we will have a constructive administration of this law that will administer it with a view of protecting the public on interest rates. If we make the matter of interest rates the paramount thing we might not be able to accomplish the real purposes of this legislation.

Mr. Goldsborough. On the other hand, unless the interest rates are kept carefully in mind all you will be doing is making a sucker of the buyer. That will be the ultimate result and the property will ultimately be unloaded to sharks and I say the interest rates will be a vital factor.

Mr. Fish. If you do not lower the interest rates, what is the use of legislation at all? You can go to the banks right now and borrow for 5 and 5½.

Mr. Eccles. This bill does not just cover the question of interest rate. A reduction of a half of 1 percent is proposed. That is done by regulation. The insurance cost is lowered on mortgages on homes under $6,000, making a total reduction from 6¼ to 5¼. On the larger homes the reduction is from 6¼ to 5½.

This bill also makes very important amendments. It makes possible the loaning of from $16,000 to $200,000 on individual rental properties, with the loans not in excess of $1,000 a room, or on a group of houses built and leased one at a time. It also expands the limited-dividend section, making possible mass production. The question of cost is not merely the question of financing cost. That is of course a factor and as I said a moment ago, the financing cost is less than half of the cost of similar financing in the twenties. We had $8,000,000,000 worth of bonds used to finance apartment and real-

estate operations in the twenties, and we know they paid 7 percent and some of them 8 percent, and there was offered 5, 10, 15, or 20 points commission for the underwriting and distribution of them so that the borrower paid in nearly all of your real-estate developments very high rates.

Now, the elements of cost are important and little consideration has been given to them, and I do not see that much can possibly be done by legislation, but there is certainly something we must recognize and that is the high labor costs in the building trades, which are as high in many instances, if not higher, than they were at the time the interest rate was 8 and 10 percent.

Mr. McKeough. Does that include material, also, Governor?

Mr. Eccles. I was just going to say material went up in many cases to the '29 level. However, materials are coming down. So, the question of reducing costs here does not purely revolve around the question of interest rate. It is not practical or possible to uphold monopolistic material prices where production has been greatly reduced and the price remains the same, or where employment has been greatly reduced and the high wage rate is also maintained. There are two great elements of cost, of course, and I cannot see how we can expect to have a deflated interest structure and an inflated price structure. They just do not go together.

Mr. Fish. Everything you have said we all know is true, but nevertheless everything you have said shows the necessity for a low rate of interest if you are going to get prospective home owners in possession of their own homes. One thing you left out was high taxes. In view of high taxes and the high cost of labor and interest rates it is essential to have a lower interest rate if we are going to have building, and that is the primary object of the bill.

Mr. Eccles. Interest rates cannot be made arbitrarily.

Mr. Fish. Certainly not.

Mr. Eccles. As I explained I think before you came in, baby bonds yield from 2 to 2.9 percent with certain tax-free features, and they are of course attracting the savings, the funds which institutions loan on building. If they have to pay 3 or 3½ percent, as many of them do—2½ percent is the usual payment of savings institutions in a great many sections of the country—it is not easy to get the interest rate down to 3 or 3½ percent. The farmers were given a 3½-percent rate but everyone recognizes there is a subsidy in that rate. Every one recognizes the market does not furnish that rate. There is a Government subsidy in that rate.

As I said a moment ago, we are trying to get away from the idea of Government subsidies. A great many people feel the time has come when the Nation ought to stand on its own, and when you do that you have the practical problem to deal with, and as I said, I think this question of cost is important and the rate is certainly as low as it is possible to go.

Mr. Fish. What does the Governor think of amending State laws to grant an exemption of $2,000 on low-price buildings? I want to get the Governor's impression.

Mr. Patman. What can Congress do about State laws?

Mr. Fish. I asked his views on it. It would help very much if he backed it, because his voice carries over the Nation.

Mr. Patman. There is not anything Congress can do.

The Chairman. There are some States that have had the good sense to deal with that problem. They have done it in Alabama and New York.

Mr. Patman. But we cannot do it here.

Mr. Eccles. Anything that is done to reduce taxes on new home construction might tend to encourage construction. What the situation may be in the various States with reference to the possibility and practicability of doing it, is, of course, a matter that would have to be decided upon in the States. There are some costs that are important. The various costs of title examination, in many cases, are altogether too high and unjust, and the appraisal costs are often higher than they should be, and there are instances where commissions are paid for the securing of the loan or the making of the loan, just a flat commission. It seems to me that the Federal Housing Administration by regulation should prohibit commissions of that sort being paid. That would tend to reduce the cost. I am for anything that can reduce the cost.

Mr. Transue. Will this program raise the cost of materials that go into these houses and raise the cost of labor that goes into these houses?

Mr. Eccles. What was that?

Mr. Transue. Will this program raise the cost of materials that go in the houses and also raise the cost of labor for construction of those houses?

Mr. Eccles. Well, I do not think so.

Mr. Transue. Why not?

Mr. Eccles. Well, for the very reason that you have tremendous idle capacity today. I think the experience that labor and possibly business people have had during the past year will teach, if it teaches anything, that when costs go beyond what the people can afford to pay, and are able to pay, they lose their business for materials and they lose their jobs. Building activity started to turn down in direct relationship to the increased cost of labor and material.

Mr. Transue. And where there is demand for both labor and material they both go up?

Mr. Eccles. If you get a demand beyond ability to supply the goods, or promote monopoly in either field, they can put up costs.

Mr. Transue. Were these costs affected recently by monopolies?

Mr. Eccles. Well, while every one had been talking and expecting inflation, we had had a great degree of stability in price levels for a period of about 3 years, up until early last fall, a year ago. The amount of forward buying was very great commencing at that time, because there was a fear that prices would be higher. The desire of people to make improvements, and of business institutions to carry out expansion or modernization of their plants or other facilities that they had neglected to do for a period of 3 or 4 years, tended without question to create a very large demand over a very short period of time and there was a huge accumulation of orders that could not be filled. The strikes that developed during that period also added to the feeling of uncertainty as to the ability of various institutions to fill orders, and that tended to further cause the placing of orders.

Mr. Transue. Now you have said our economy began to get out of balance last spring because of low wages being paid unorganized labor and low prices being paid for farm products.

Now, how will this program tend to raise either one?

Mr. ECCLES. I did not say our economy got out of balance last spring. It began the fall before last spring, through the changes of prices that tended to create a de-equilibrium in the economy. Farm prices went down and other prices went up.

Mr. TRANSUE. Is that true now? Is it true our economy is out of balance because of the low prices to farmers and low wages to unorganized workers?

Mr. ECCLES. Well, I think so. I think that either those on the up side or high-price side should be brought down or the others brought up, possibly some of both.

Mr. TRANSUE. How will this help those two groups?

Mr. ECCLES. Well, to the extent it creates more business activity and more employment—it helps everybody.

Mr. TRANSUE. But it will first help the organized workers in the building trades and the material men in the building business. Is that not correct?

Mr. ECCLES. Well, it will help the railroads very materially and it will help the employment all the way down the line. Every time there is a skilled worker employed, that creates employment for the unskilled workers throughout the various activities of industry. There is not anything like building to increase activity throughout the whole economy.

Mr. LUCE. Mr. Chairman.

The CHAIRMAN. Go ahead, Mr. Luce.

Mr. LUCE. Would you include in your reasons for the present situation the fact the President promised increases in prices up to two-fifths, and has largely carried out his promise?

Mr. ECCLES. Well, you had a very uneven increase in prices. The prices were in no sense a balanced increase. If they had been the situation would be very different than it is today. It is the unbalanced increase of prices—with steel prices today at 120 percent of 1929 prices and cotton at 7 cents. You cannot simply consider an average of prices, taking the entire index, because certain monopolistic prices may be held very high and other prices have gone very low, and you have a condition of stagnation because one group is unable to exchange its goods and services for the goods and services of another group.

Mr. LUCE. I simply wanted to bring out the fact the President promised the increase in price which has taken place.

Mr. ECCLES. I do not think it has taken place in certain fields.

Mr. LUCE. Then, he has failed in his purpose.

Mr. ECCLES. There is not a uniform increase in price.

Mr. LUCE. Has he not therefore failed in his purpose and his promise?

Mr. ECCLES. As to an effort to bring about increases in prices, it involves the whole economic field and where you have a high tariff and protected manufactured goods you have agriculture depending upon a world market. You certainly cannot get a balance unless you do something to help agriculture. You have got to either bring one up or the other down.

Mr. LUCE. True enough, but his economic advisors must have failed to take into account those things.

Mr. ECCLES. I do not know that.

Mr. BARRY. Governor, this bill is designed to stimulate business and not as a relief measure, and as it now is drafted it applies mainly to homes of $6,000 and less. The county I come from has a population of 1,250,000 people. About 85 or 90 percent of the county consists of one family homes and the majority, by far the big majority of these one-family homes,are worth more than $6,000.

Now people who can afford homes of $6,000 and more earn from $3,000 to $5,000 and up. Do you not think some inducement should be made to that very substantial market in order to stimulate industry? Do you not think instead of jumping from 10 to 20 percent that those who buy homes in excess of $6,000 should be given advantage of the 10 percent and then gradually scaled, to attract that market?

Mr. ECCLES. I do not think so for this reason. People who can afford to pay more than $6,000 for a home ought to be able to pay a down payment of 20 percent. Otherwise you have the question whether or not they can afford better than a $6,000 home. Secondly, the market for more expensive homes is very limited. The risk is very much greater, and there is a greater risk on a loan on a $10,000 home with a 20 percent down payment than there would be on a $5,000 home with a 10 percent down payment.

Mr. BARRY. Now after all, those that can afford a $6,000 home are in the lower-income brackets?

Mr. ECCLES. They are over 75 percent of the people of the United States.

Mr. BARRY. Talking about the country; yes. This is not a relief measure. This is a measure to stimulate business.

Mr. ECCLES. Yes; that is right.

Mr. BARRY. In New York City the average civil-service employee, and there are hundreds and thousands of them, do not happen to have too much cash on hand. It is the opinion of the newspapers that Queens County has had more building than any other county in the country, and their contentions is you are not going to offer any attraction to this market. I disagree with you. I think the man that earns more is a more reliable risk than the man who earns less.

Mr. ECCLES. Well, I do not know that I can say any more. I feel that an 80-percent loan on a home that exceeds $6,000, or these large apartment operations, is about as great a risk as could be assumed. There is also the factor that the shortage today throughout the country is not in the higher-priced homes. We find that among the higher-priced homes and also the higher-priced apartments, that is those apartments going for the largest rentals, there is still a surplus, that the shortage exists in the case of properties covering the ability of the average family to rent.

Mr. BARRY. I think the average home is $8,000 to $10,000 in Queens County, for example. Do you think it is unreasonable to expect 10 percent on the first $6,000 and 20 percent on the remaining $4,000?

Mr. ECCLES. As I say, the difficulty about it is that there is a surplus and not a shortage of your higher-prices homes. They are still selling at a great deal less than they can be built for. There is very little demand throughout the country for credit on that type of structure, and so long as you have a surplus of properties for rent or for sale in that class, it would seem to me that is not a problem that needs to be given very much consideration at this time.

Mr. BARRY. Are you aware of the fact that only a small percentage of the homes in New York City can be built for $6,000?

Mr. ECCLES. They have got to be brought down in cost because people cannot afford to pay rental on properties that cost so much.

Mr. WOLCOTT. Mr. Eccles, in reply to the question asked by Mr. Luce, you stated our economy might have been thrown out of balance by certain tariff protection given to industry, inferring that the same protection had not been given to agriculture. Do you think that caused the recession?

Mr. ECCLES. I would prefer not to get into any more discussions about the cause of the present recession, or the cure. I do not object to making a statement. However, I would like to take the time to make a statement after thorough study so I would not be misunderstood.

Mr. WOLCOTT. The reason I asked that question is because I am firmly of the belief if we can find the answer why commodity prices have gone down and stock prices have gone down, and we are enjoying a business recession, we possibly will find the answer here. We have a shortage of houses. I think there is something very much more fundamental in this bill than whether we will build a few houses.

Mr. ECCLES. So do I.

Mr. WOLCOTT. But does not the success of this bill depend largely on whether the banks are attracted to this form of investment?

Mr. ECCLES. Whether the lending institutions are attracted.

Mr. WOLCOTT. When I say banks I mean all institutions which invest in F. H. A. mortgages.

Mr. ECCLES. Yes; you have the national banks and the State commercial banks, the mutual savings banks, life-insurance companies and the building and loan companies, and those are the line of institutions that are engaged in the business or can make real-estate mortgages on homes.

Mr. WOLCOTT. How much of a spread must there be between the interest paid on Government obligations and interest paid on real-estate loans in making these loans attractive for investment by bankers?

Mr. ECCLES. Well, of course they are not in competition only with Government obligations. You have many other forms of investments.

Mr. WOLCOTT. Industrial and municipal?

Mr. ECCLES. Yes.

Mr. WOLCOTT. I had in mind this. Allowing for carrying charges, administrative costs, depreciation and foreclosure costs, what would the spread have to be to make this kind of investment equally as attractive as a Government obligation or obligation insured by the Government?

Mr. ECCLES. I think that the 5 percent is pressing it right down to the limit at the present time. The question of spread, to take care of the increased cost and risk of foreclosure would have to be one-half to 2 percent at first.

Mr. WOLCOTT. Perhaps I should not put it this way, but it seems to me that in the operation of this plan we are completely at the mercy of the banks. You cannot force a bank to buy this paper, can you?

Mr. ECCLES. No; you cannot.

Mr. WOLCOTT. Has the open market committee authority to force a bank to buy this paper?

Mr. ECCLES. No lending institution, of course, can be forced to invest its funds in anything.

Mr. WOLCOTT. I have been told if we made two or three changes in this bill we would have a real estate building boom which would create a business boom the like of which we have never seen, I think the builders are somewhat optimistic in that respect.

Mr. ECCLES. So do I.

Mr. WOLCOTT. Nevertheless it is an element that must be taken into consideration. What I want to guard against and what I think this committee wants to guard against is putting the bankers in position where they think it is more desirable to invest in industrials and Governments than in this class of paper, and therefore the attempt to help the home builder would be nullified.

Mr. ECCLES. The national mortgage association which is expected to be set up with $50,000,000 from the R. F. C. will tend to make our insured mortgages more attractive than otherwise would be the case, because a mortgage association would provide an immediate market for these insured mortgages at less than a 5 percent basis, leaving the lending institution a margin that would pay them for the cost of servicing this loan. It is not only the list of lending institutions I read that makes these loans. I want to amend that by saying that mortgage companies, may take part. If they qualify for making these loans, that is, if they have sufficient assets and meet other qualifications, they could make the loans, selling the loans to the mortgage association, the mortgage association in turn selling its debentures in the investment market.

Mr. WOLCOTT. That sets up another agency through which the banks may rediscount their paper?

Mr. ECCLES. It is not rediscounting. It is selling outright to these associations, just as agencies of insurance companies make loans, turning the loans over to the insurance company and servicing the loans for the insurance company, and getting from a half to three-quarters of 1 percent for looking after and servicing the loans.

Mr. WOLCOTT. Do you think with the aggregate capitalization of $50,000,000 which the R. F. C. are ready to put into a national mortgage association that that will be a broad enough credit base?

Mr. ECCLES. I am favorable to permitting them to sell debentures 20 times that amount which would give an opportunity of selling a billion dollars of debentures. That, it seems to me, will be ample to take care of the situation, certainly for the present time, and if there is need for more, I do not think there would be any difficulty in providing additional capital for making possible further sales of debentures.

Mr. WOLCOTT. I am merely bringing these things out as they come to my mind because of my interest in making this bill successful.

Mr. ECCLES. Yes.

Mr. WOLCOTT. Another thing that comes to my mind, if we insure a mortgage on a house with an assessed valuation of less than $6,000 at 10 percent and amortize the other 90 percent, we increase the amortization cost and we increase the amount of the monthly payment which the home purchaser has to pay.

Do you not think that possibly that increased monthly payment might be a deterrent to home building?

Mr. ECCLES. Because of paying a 90-percent loan?

Mr. WOLCOTT. Worked out as I have it here, any home owner under the bill would have to raise $600 for the initial payment on a

$6,000 home. The balance would be amortized at 90 percent. If a 20-percent down payment or $1,200 is made there is only $4,800 and the difference is $3 or $4 a month, I presume.

Mr. ECCLES. Of course, we could carry that down and require them to make only payments on 60 percent, but based upon experience in other countries the 90 percent, the high value of loans, with the lower financing cost works out in the interest of the home owner. There is also this factor, that if the 60-percent loan or the 70-percent loan or maybe even the 80-percent loan was the only obligation and there was the 20-percent equity or the 30- or 40-percent equity, that would be one thing, but it has been proven that few people were able to make a large payment. They buy a home under a contract by paying as low as 5 percent to the real-estate operator and they do not enter into a mortgage obligation. They buy under a contract and the papers are put in escrow and when the buyer finishes his payment under his contract the property is turned over to him. He does not, under those circumstances, often know what interest he is paying on the actual cost of the home or what other costs are involved in the transaction. This has a provision so that he can buy from the contractor or real-estate operator a home, paying his 10-percent down payment and borrowing the 90 percent, based not upon the appraisal of the real-estate operator; but where he borrows the 90 percent, he has the protection of the appraisals of the lending institution making the loan, and of the F. H. A.

Mr. WOLCOTT. I had in mind particularly this. We have been told by some of the witnesses that the depreciation on a new home is likely to be about 10 percent in the first year. The bank I understand, must foreclose. The bank has to take the depreciation. It is compelled to pay the cost of the foreclosure. It has to pay whatever back taxes there might be accrued during the period of foreclosure before it can get any relief from its insurance.

If I were a banker I might hesitate about making a loan under those conditions unless I had some positive assurance that the home purchaser is going to have a constant income. Do you not think because of the additional risk which the banks aer taking by increasing the amount of obligation at the same time we are reducing the rate of interest, it is going to make this class of paper less attractive to the bankers and thus defeat the purpose of the bill?

Mr. ECCLES. They can still make the 80-percent loan.

Mr. WOLCOTT. The purpose of this bill is to produce home construction by reducing the down payment.

Mr. ECCLES. Yes.

Mr. WOLCOTT. And the success of that depends on whether it is attractive to the banks.

Mr. ECCLES. Attractive to lending institutions, and as I said a moment ago, a great many will not be interested. They have not been up to date. The mortgage association, however, will tend to cause agencies to be set up, mortgage companies of various kinds, that will loan money and sell the debentures of the mortgage association. I think that in turn will tend to bring the lending institutions in the community to the point where in order to get business they will buy it against competition that will induce them to make these loans where otherwise they would not.

There is also this factor, too, with reference to what you say in regard to the 10 percent depreciation. There may be some depreciation. There is also this factor, however, the taxes that may be paid, the interest that accrues during the period of foreclosure of course is added to the obligation so that there is no loss of principal or interest or taxes at all. They ultimately get the 3-percent guaranteed debenture.

Now, the one element of cost that they do not get is the foreclosure cost and that is a serious factor as has been pointed out I think, in several States, in the State of New York and State of Illinois, and I think in the State of Nevada and in New Jersey, there are prohibitive foreclosure costs which would be a deterrent to the 90-percent loan. In the State of Massachusetts, on the other hand, they have a foreclosure cost that runs to $30 and the foreclosure can be carried out in a period of about 2 months.

In these other States the foreclosure cost is much higher than the foreclosure cost of $30 in Massachusetts, $300 in New York and Illinois, and it takes all the way from a year to a year and a half to foreclose.

It seems to me there is some kind of racket somewhere and something out to be done by State legislation to follow the example of Massachusetts, and if that is the case, the small 10-percent down payment would not be the same deterrent it otherwise would be in those particular States.

Mr. WOLCOTT. We have three elements essentially to consider before we can hope for any success under this plan. In reverse order the first is, the foreclosure cost under State law; the second is the willingness of the individual to purchase a home and this element is dependent upon the assurance of a steady income covering the period of amortization; and the next is inducement of home construction because of low labor and material cost. Is not that about the sum and substance of it?

Mr. ECCLES. That is right.

Mr. WOLCOTT. And if you cannot get labor and material cost down he will not build. If he is not sure about a constant income for a few years at least he will be hesitant to obligate himself, and if the banks are not sure they will not have to take a loss, they are not going to take the paper. Those are the things you have got to consider.

Mr. ECCLES. Those things have been considered very fully.

Mr. WOLCOTT. Let us analyze them. What inducement is there at the present time for a man by reason of low labor cost to build?

Mr. ECCLES. You cannot get everything all at once. You have got to get the first things first. Now, the setting up of this mechanism for getting construction started, in and of itself, it seems to me, will tend to reduce the cost of home construction either for sale or for rent. It makes possible a large-scale operation which in itself makes possible wholesale buying, or at least buying, upon a much more favorable basis than is possible with the construction of one or two homes.

Mr. WOLCOTT. In that particular we cannot repeal here the law of supply and demand.

Mr. ECCLES. We cannot do what?

Mr. WOLCOTT. We cannot repeal the law of supply and demand. It is also inevitable that increased demand for any commodity increases the cost of that commodity.

Mr. ECCLES. That is not true in England where building has been going on for 6 years. If we built in the same proportion, we would be building over a million homes a year. During all that period of time, the financing cost has gone down without any action on the part of government, and the labor cost and the material cost have remained about uniform. There has been no appreciable change in the cost of home construction in England during this particular time.

Mr. WOLCOTT. You and I have discussed heretofore on this committee the relative national debts of European countries and the United States, and I have come to the conclusion that we should not take for granted that the same economy which prevails most satisfactorily in Europe would prevail as satisfactorily in the United States.

What has the administration done or what does it propose to do to induce materialmen to reduce the cost of material to get it within the reach of the home builder?

Mr. ECCLES. Let me answer. You said that the law of supply and demand would tend to bring up prices, if the demand for homes increased it would bring up prices. We will take the automobile business as a case in point. As the volume of production has increased the demand has increased and the cost has come down over the last 20 years. As the quality of the product has greatly improved the cost has decreased. That is not only true in the case of automobiles, but in many other things. We have anarchaic financing in the building-construction field and we want to make possible a different type of financing than the home-construction industry had to depend upon during the twenties. That in itself does not necessarily mean you have built up over night a home-construction industry that is comparable or can be comparable to the automobile industry, but you do start here a mechanism that makes possible the organization of construction companies to meet those requirements of homes for the mass market. If we can get a wholesale production of material, and if labor can be hired upon an annual basis——

Mr. WOLCOTT (interposing). Do you really feel that this bill will result in such mass production of homes that it will have the same effect as has been the case in the automobile industry?

Mr. ECCLES. I do not expect that will be accomplished in a hurry. I merely think that we are moving a step in that direction, and I am not thinking for one moment that this is a panacea and that this in itself is going to improve some of these underlying problems we are confronted with.

Mr. WOLCOTT. Carrying out that original thought further whether the automobile is cheaper or more expensive is determined by the demand for the automobile, is it not?

Mr. ECCLES. It has not been true. The demand was very low in 1932 and the automobile was as cheap then as it is now.

Mr. WOLCOTT. That was an inducement for automobile purchase?

Mr. ECCLES. That is right.

Mr. WOLCOTT. Now, we are trying to induce people to build homes?

Mr. ECCLES. That is right.

Mr. WOLCOTT. And the building materials are exceptionally high. If the automobile industry increased the cost of their cars, as they did a few months ago, in a declining market, we may now expect in the building trade just what has happened in the automobile industry, a stoppage of buying?

Mr. ECCLES. You cannot expect your building-material prices or the wage prices all to come down at once. This is what has happened. Take the lumber industry. Lumber has come down over 30 percent over the last 2 months. The price of lumber at the mills is 30 percent less today.

Mr. WOLCOTT. Is that not due to the fact there is no demand for lumber?

Mr. ECCLES. Of course it is. Lumber would possibly go up some.

Mr. GOLDSBOROUGH (acting chairman). Several members desire to interrogate you and we also want to get on the floor at 12 o'clock today. Would it be agreeable for you to return Monday morning at 10:30?

Mr. ECCLES. It would be agreeable but I would like to get through as soon as I may.

Mr. FORD. May I just ask one question at this time?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. FORD. If a house were built on a new tract and it was the only house there and no other houses were ever built there, depreciation would set in, but if by reason of the attractiveness of that location a dozen or 20 other houses were built around that house, the value would be enhanced, would it not?

Mr. ECCLES. Yes.

Mr. KOPPLEMAN. Do I understand Mr. Eccles is coming back Monday morning?

Mr. GOLDSBOROUGH. Yes, sir. At half past 10 Monday morning.

(Whereupon, at 12 noon, the committee adjourned until 10:30 a. m., Monday, December 6, 1937.)

AMENDMENTS TO NATIONAL HOUSING ACT

TUESDAY, DECEMBER 7, 1937

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met, pursuant to notice, at 10:30 a. m., for further consideration of H. R. 8520, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Goldsborough, Reilly, Hancock, Williams, Spence, Farley, Meeks, Kopplemann, Ford of California, Brown, Patman, McKeough, Evans, Transue, McGranery, Barry, Wolcott, Fish, Gifford, Luce, Crawford, Gamble.

The Chairman. Mr. McDonald is here, gentlemen. Somebody asked that he be here to answer some questions, and I suggest that we hear him right now, as he has an engagement at the White House at 11:30.

Mr. Williams. I would like to ask Mr. McDonald some questions, Mr. Chairman.

STATEMENTS OF STEWART McDONALD, ADMINISTRATOR; ABNER B. FERGUSON, GENERAL COUNSEL; C. WYLIE ALLEN, CHIEF, SAVINGS LOAN SECTION; MILES L. COLEAN, DIRECTOR OF RENTAL, HOUSING DIVISION; DR. ERNEST M. FISHER, DIRECTOR OF ECONOMICS AND STATISTICS; CLYDE L. POWELL, ASSISTANT DEPUTY ADMINISTRATOR, AND THEODORE B. NICKSON, COMPTROLLER, FEDERAL HOUSING ADMINISTRATION

The Chairman. All right, Mr. Williams.

Mr. Williams. Mr. McDonald, under the present program there are two general kinds of projects that are insured by the Federal Housing Administration, low-cost housing projects and the dwellings. I suppose you have a record showing the amount of money that has been loaned by the different kinds of institutions that make the loans, the rates that have been charged, the amount of mortgages insured by F. H. A., and the insurance premiums that have been paid, and so forth?

Mr. McDonald. Yes, sir.

Mr. Williams. Now, how much money, how much in dollars has been insured in the low-cost housing projects?

Mr. McDonald. Mr. Colean is here, and I would like to ask him to answer that, Mr. Williams.

Mr. Colean. We have outstanding first mortgages on buildings that are in operation of $5,530,000; mortgages insured on buildings now under construction in the amount of $8,286,000, and, in addition,

an amount of $2,472,000 for projects for which the financing has been arranged, and in the process of closing, making a total of $17,438,000. That is as of October 31 of this year.

Mr. WILLIAMS. That is on the low-cost housing projects?

Mr. COLEAN. Yes, sir.

Mr. WILLIAMS. And you have insured or made commitments to insure something over $17,000,000?

Mr. COLEAN. That is right. Now, in addition, we have commitments outstanding for additions. On October 31 it was $12,000,000, and today it is about $16,000,000 on projects for which the finance has not been arranged at the moment.

Mr. WILLIAMS. Does that cover the full amount that you have had insured?

Mr. COLEAN. That is correct, sir.

Mr. WILLIAMS. None of this has been redeemed? None of the insurance that you have on these low-cost-housing projects has been redeemed?

Mr. COLEAN. Yes, sir; in one base. A project in the New York area, where a mortgage of $1,250,000 was insured. It was canceled and taken by a private insurance company before the building was completed.

Mr. WILLIAMS. The insurance was released as to that?

Mr. COLEAN. That is right, sir; and on the others the insurance is in force.

Mr. WILLIAMS. Have there been any defaults on any of those financial arrangements concerning any of those projects to date?

Mr. COLEAN. No, sir. To date these projects have been very successful but, of course, they are quite new and experience is therefore limited.

Mr. WILLIAMS. Who has made the loans on those projects?

Mr. COLEAN. The loans have been made by the Prudential Life Insurance Co., the New York Life Insurance Co., the Union Central Life Insurance Co. of Cincinnati, the RFC Mortgage Co., and, in certain cases, by bond issues distributed to local institutions.

Mr. WILLIAMS. What rate of interest has been paid to those insurance companies?

Mr. COLEAN. The rate has been uniformly 4½ percent without any additional service when charged 4½ percent, except in one case where the mortgage was 4 percent.

Mr. WILLIAMS. Where the mortgage was what?

Mr. COLEAN. Four percent.

Mr. WILLIAMS. It has been at the rate of 4 and 4½ percent?

Mr. COLEAN. Yes, sir; at the rate of 4 and 4½ percent, with that one exception.

Mr. WILLIAMS. And what has been your insurance charge?

Mr. COLEAN. One-half of 1 percent on the original loan value.

Mr. WILLIAMS. What proportion of those loans has the RFC made?

Mr. COLEAN. The RFC is now on commitment for four loans.

Mr. WILLIAMS. For how much money?

Mr. COLEAN. I would have to add that up.

Mr. WILLIAMS. Well, approximately. You do not need to state it exactly.

Mr. COLEAN. I do not have that, but I can give that to the clerk. It would amount to not over, I would say, $4,000,000 at the top, and

I may say that one of their mortgages on one of the projects at the end of Sixteenth Street here in Washington was originally made by the RFC and sold to the Union Central Life Insurance Co. after completion.

Mr. WILLIAMS. What rate of interest does the RFC charge?

Mr. COLEAN. Four and a half percent.

Mr. WILLIAMS. The same as the others?

Mr. COLEAN. That is right, sir.

Mr. WILLIAMS. That, of course, does not include your insurance premiums. That is one-half percent extra in addition to the interest?

Mr. COLEAN. Yes, sir; that is one-half of 1 percent extra.

Mr. WILLIAMS. That would make a charge of 5 percent?

Mr. COLEAN. Yes.

Mr. WILLIAMS. What other charges are there in addition to that?

Mr. COLEAN. There are no other annual charges.

Mr. WILLIAMS. No other annual charges, but what other charges are there in addition?

Mr. COLEAN. There are certain charges in connection with making the loans.

Mr. WILLIAMS. What are they?

Mr. COLEAN. In some cases the brokerage fee is 1½ percent.

Mr. WILLIAMS. To whom does that go?

Mr. COLEAN. It usually goes to the local agent of the RFC who handles the rent and makes the appraisal of the property, and so forth.

Mr. WILLIAMS. That charge is 1½ percent?

Mr. COLEAN. One and a half percent; yes, sir.

Mr. WILLIAMS. One and a half percent on the principal amount of the obligation?

Mr. COLEAN. That is right.

Mr. WILLIAMS. What are the other charges?

Mr. COLEAN. That is the only financial charge that has been made on these loans.

Mr. WILLIAMS. Is there not an appraisal or inspection of it?

Mr. COLEAN. At the outset of this program we did not charge an appraisal fee ourselves—for this reason, that the outlet for these loans was so limited we did not feel we could assure the projects that were under examination of a sufficient guaranty of getting their money to encourage them and charge them for an examination. We wanted to get our projects examined and available for the market.

Mr. WILLIAMS. What has been your policy in more recent times?

Mr. COLEAN. We have recently, and that is a matter of 2 months ago, charged them a fee, so that we now charge three-tenths of 1 percent on the total amount, to cover our appraisal and inspecting expenses.

Mr. WILLIAMS. That is in addition to the 1½ percent brokerage commission?

Mr. COLEAN. Yes, sir; that is in addition to the brokerage commission of 1½ percent.

Replying to your previous question, Mr. Williams, the F. H. A. rental housing mortgages which have been taken by the RFC Mortgage Co. amount to $2,134,000.

Mr. WILLIAMS. Let us go to the question of insuring the smaller houses, smaller programs. How much has been insured in dollars on dwellings?

Mr. McDONALD. I will have to answer that. It is a little over $1,000,000,000, if you want the full figure.

Mr. WILLIAMS. Have you the number of the projects?

Mr. McDONALD. Yes; I think so.

Mr. WILLIAMS. And the range of prices?

Mr. McDONALD. Yes; I have that also. These figures are as of October 31. As of November 30, they would be about $40,000,000 more. As of October 31 there had been 322,651 mortgages selected for appraisal for a total amount of $1,329,000,000. Of those, 246,400 mortgages were accepted by us for insurance, for a total of some $998,369,033. Today that sum would be about $40,000,000 higher than that, making a little over $1,000,000,000.

All of those houses are not completed as yet, but the insurance is binding on us on the 246,400 mortgages. The average mortgage is $4,000, or about $4,100, and the range in value—you have that chart there, Dr. Fisher, have you not?

Dr. FISHER. Yes.

Mr. WILLIAMS. How low down do they go in value, what is the lowest in value?

Mr. McDONALD. We have some houses down as low as $1,200, and there are very few under $1,000. There is no limit, but there are very, very few over $8,000.

Mr. WILLIAMS. You have very few of these $16,000 mortgages?

Mr. McDONALD. Scarcely any.

Mr. WILLIAMS. Scarcely any of those?

Mr. McDONALD. Yes. I will have a chart here in just a minute to show you that, Mr. Williams. [Indicating on chart:] That gives you the property valuation right there, and the proportion over $15,000 is almost nil.

Mr. WILLIAMS. Your last figure there is just $2,000.

Mr. McDONALD. Those are the small ones; $2,000 and less.

Mr. WILLIAMS. Out of that number that you have insured, how many defaults have you had to date?

Mr. McDONALD. We do not have the minor defaults, that is, what you call the minor defaults, because those are corrected by the lending institution unless it becomes a major default, and necessitates a foreclosure. Mr. Fleming of the Riggs National Bank here in Washington, testified before the Senate committee yesterday to the effect that he had over two million and a quarter of mortgages but had no defaults at the present time. We have taken over, as of November 29, 57 properties that had been forclosed by the banks, lending institutions, or life-insurance companies, whatever they may be, for which we had issued or authorized debentures.

Mr. WILLIAMS. Involving how much in insurance?

Mr. McDONALD. That involved some $229,000 in insurance, or an average of $4,029 a house. Of those we sold 20 for which we received an average of $4,485 a house, and we still have on hand 37 houses, which we have insured for $139,985, or an average of $3,783 a house.

Mr. WILLIAMS. Now, right there, of those that you sold, did you get back the investment that you had in them on your insurance?

Mr. McDONALD. We sold 20 properties for $88,344.64, for which we received an average of $4,417.23 per house. We lost on an average $524.46 a house, but I might say on three properties alone we lost an average of $1,875, and on the remaining 17 we only lost $286 a house, and our total loss on the amount of insurance on foreclosed properties that we have sold to date, out of $1,000,000,000 worth is $10,489.14. Of the 57 properties taken over 8 are located in Mississippi. In the early days of commitments there was a new State director down there, who did not think he worked for us, but for the banks in that territory.

Mr. WILLIAMS. You had some rather loose appraisals?

Mr. McDONALD. He appraised them himself, and said it was his duty to keep up the value of real estate in Mississippi. We have a new director down there now.

Mr. WILLIAMS. Have you noticed in recent times any increase in the number of defaults?

Mr. McDONALD. We have not had anything to indicate that there is a greater number of defaults or any slowing up of home mortgages to date, but, of course, I must say, with our procedure we would not get notice of it as quickly as would the local banks. With our procedure, that bank or the lending institution is obliged to notify us in 90 days of a default, but that is merely a formal notification. They have a full year in which to correct that default, and if, inside of a year, the default is not corrected then they have to start foreclosure proceedings. So, you see, we would not be under formal notice until foreclosure proceedings started.

Mr. WILLIAMS. You have not noticed any increase in that in recent months?

Mr. McDONALD. Not in general ways.

Mr. WILLIAMS. Now, what has been the interest charges to these home builders?

Mr. McDONALD. Home owners.

Mr. WILLIAMS. Yes, these owners.

Mr. McDONALD. Owners and builders.

Mr. WILLIAMS. Yes.

Mr. McDONALD. The maximum we may charge under Federal Housing Administration regulations is 5 percent interest plus a half of 1-percent service charge, which may or may not be charged, and the insurance charge, which is one-half of 1 percent upon the original face of the note, but which, when figured over a period of 20 years, amounts to approximately three-quarters of 1 percent, making a total maximum of 6¼ percent. However, where the mortgage is less than 80 percent, in some districts lenders have made loans as low as 4½ percent.

Mr. WILLIAMS. In other words, that rate of interest to the home owners varies?

Mr. McDONALD. Yes, sir, but I would say it has been very close to the maximum as a rule.

Mr. WILLIAMS. Now, I am speaking just of the interest.

Mr. McDONALD. Yes, that is right.

Mr. WILLIAMS. It would be from 4½ to 5 percent?

Mr. McDONALD. Yes, sir, that is right.

Mr. WILLIAMS. Well, now, there is little in the law, if anything, at present, is there, except as the Administrator finds that the mortgage account requires it——

Mr. McDONALD (interposing). That is right.

Mr. WILLIAMS (continuing). In which case it may be 6 percent?

Mr. McDONALD. Yes; it may be 6 percent, that is right.

Mr. WILLIAMS. In other words, in some cases, you even find it necessary for you, as Administrator, to permit loans for more than 5 percent?

Mr. McDONALD. We have fixed the maximum at 5 percent, and have in no case gone as high as 6 percent, which we would be allowed to do according to law.

Mr. WILLIAMS. And, what institutions now have made these loans?

Mr. McDONALD. I can give you that pretty accurately. I think I have the exact amount of them.

Mr. WILLIAMS. I do not care about the names of the institutions, but just the classes of institutions that have made these loans.

Mr. McDONALD. The national banks, 30.7 percent of the loans insured for the Federal Housing Administration; the State banks have made 28.3 percent of the loans; the building loan societies have made 15.7 percent of the loans; the mortgage companies have made 10.1 percent; the insurance companies have made 8.5 percent of them; the savings banks have made 3.3 percent, and others have made 3.4 percent.

Mr. WILLIAMS. In most of the States the banks are not permitted, are they to make an 80-percent loan?

Mr. McDONALD. They are not, unless they are insured under the Federal Housing Administration.

Mr. WILLIAMS. Have the State legislatures passed enabling acts by which the banks and the building and loan associations in the various States can make loans up to 80 percent of the value?

Mr. McDONALD. I think Georgia is the only one that did not ratify it immediately. That has since been ratified, I am told. All of the States have now ratified, so that all banks may make loans up to 80 percent if insured by the Federal Housing Administration.

Mr. WILLIAMS. I assume that also covers the building loan associations.

Mr. McDONALD. I will get Mr. Allen to answer that.

Mr. ALLEN. In 26 of the States there is no limitation at all on the appraisal they loan tp to.

Mr. WILLIAMS. You mean the State banks?

Mr. ALLEN. No, sir; the building loan associations.

Mr. WILLIAMS. The building and loan associations?

Mr. ALLEN. Yes, sir.

Mr. WILLIAMS. In the other States has that provision been modified?

Mr. ALLEN. In the majority they have passed enabling legislation. The legislatures of the States have provisions limiting it under 100 percent, to permit them to make loans up to 80 percent when insured by the Federal Housing Administration.

Mr. WILLIAMS. Does it limit them to just that?

Mr. ALLEN. In 26 of the States they have no limitation whatsoever. In the rest of the States, in practically every State, they have enabling legislation to permit them to loan up to 80 percent.

Mr. WILLIAMS. In other words, if we pass this legislation permitting 90 percent, it would require the enactment of enabling legislation by some of the State legislatures?

Mr. ALLEN. In some cases; yes, sir.

Mr. WILLIAMS. Have you the States wheie that will be required?

Mr. ALLEN. No, sir; but I can present you with a list of them.

Mr. WILLIAMS. Does that apply to the banks as well as to the building and loan associations?

Mr. ALLEN. I do not have the statistics on the banks, only on the building and loan associations.

(The list referred to by Mr. Allen is as follows:)

INVESTMENTS IN 90 PERCENT INSURED MORTGAGES

In view of our enabling legislation, and amendments thereto, the principal groups of mortgage investing institutions may make insured mortgage loans up to 90 percent of the value of the property securing the loan, except as follows:

Banks: Connecticut.
Trust companies: Connecticut, New Hampshire.
Savings banks: Connecticut, Illinois (no savings banks in Illinois).
Insurance companies: Arizona, Texas.
Building and loan associations: Connecticut, Michigan, Nebraska, New Hampshire, New Jersey, Pennsylvania, Texas, Washington.

In a few instances, because of the language of our enabling act, there is a question of legal interpretation, involving the question of incorporation by reference and delegation of power. For this reason, we contemplate clarifying our enabling legislation in certain States, although we are reasonably sure of our interpretation. Since it is possible to do this without raising the controversial question of "90 percent" loans, it is advisable to give as little publicity as possible to the above information.

Mr. WILLIAMS. What do you say about the banks, Mr. McDonald?

Mr. McDONALD. Will you state your question again, Mr. Williams?

Mr. WILLIAMS. Whether or not if we pass this legislation permitting a 90-percent loan, it will require further enactments by the State legislatures?

Mr. ABNER H. FERGUSON. I do not think so.

Mr. WILLIAMS. Do you have a uniform system or plan?

Mr. ABNER H. FERGUSON. Yes; and I think in most of the States probably they can make any loan that is insured by the Federal Housing Administration.

Mr. WILLIAMS. Regardless of the amount?

Mr. ABNER H. FERGUSON. Yes, sir.

Mr. CHAIRMAN. The State legislatures do not undertake to tell the banks what percentage they shall take for security, do they?

Mr. ABNER H. FERGUSON. No, sir; but there is a limit on mortgage loans in most States.

The CHAIRMAN. That is, as to the value on which the loan is based.

Mr. ABNER H. FERGUSON. Yes; as to the ratio of the loan to the value.

Mr. WILLIAMS. Of course, that is true as to National banks.

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. That is true of the State and National banks all over the country, and especially so of the National banks.

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. It is only because of the provision which permits them to make wholly insured mortgages that they can make loans at all.

Mr. ABNER H. FERGUSON. That is right.

Mr. CRAWFORD. Will Mr. Williams yield there for a minute?

Mr. WILLIAMS. No; I will not.

Mr. CRAWFORD. I would like to ask you a question, Mr. Williams.

Mr. WILLIAMS. I would rather proceed.

The CHAIRMAN. He wants to ask you a question, Mr. Williams.

Mr. WILLIAMS. All right.

Mr. CRAWFORD. I want to ask you if the banks have loaned up to 80 percent, or have they held their loans under 80 percent?

Mr. WILLIAMS. They have undoubtedly held them under 80 percent, except as to the insured loans.

Mr. CRAWFORD. I am not speaking of the insured loans.

Mr. WILLIAMS. Mr. McDonald just gave the number of loans that have been made by the different classes of institutions.

Mr. CRAWFORD. What I am trying to find out is whether the banks loan up to 80 percent.

Mr. WILLIAMS. I do not know.

Mr. CRAWFORD. I want to get it in the record at this point.

Mr. WILLIAMS. What do you say about that, Mr. McDonald?

Mr. McDONALD. I see the banks have gotten down as far as 50 percent. A great many 80 percent. The banks have loaned in some cases 80 percent, and our average loan on new homes is less than 76 percent. So, you can see there are quite a few that do not go up as high as 80 percent.

Mr. WILLIAMS. As I understand that figure, most of them made loans up to about 80 percent.

Mr. McDONALD. The average was less than 76 percent.

Mr. WILLIAMS. Seventy-six percent?

Mr. McDONALD. Yes, 76 percent. Maybe a man did not want an 80 percent loan.

Mr. WILLIAMS. Have you any reason to believe that they will make 90 percent loans if this legislation is passed?

Mr. McDONALD. Yes, I have; because otherwise we would not be going into it.

Mr. WILLIAMS. Do you think they will do that?

Mr. McDONALD. Yes; I think in most States they will. I think when you come to New York and Illinois you are going to meet a very serious situation on account of the foreclosure expenses in those States. I think that will be revealed to you later on by Mr. Eccles in his further evidence that it is possible in New York, for instance, to incur an expense of almost $500 in foreclosing a mortgage on a small house, and in the State of Illinois it is almost as bad. So, when a bank has to pay $500 or a tremendous foreclosure expense on a small house, there might be opposition to making a higher percentage loan.

Mr. WILLIAMS. Now let us go to the mortgage insurance funds.

Mr. McDONALD. I believe I will ask Mr. Ferguson to explain that to you very carefully, if you will let him.

Mr. ABNER H. FERGUSON. You mean the amount of it?

Mr. WILLIAMS. No; I know what it is.

Mr. McDONALD. The amount of it is approximately $20,000,000.

Mr. WILLIAMS. Of course, that was established in the first place by the allocation of $10,000,000 of Government funds.

Mr. McDONALD. That is true.

Mr. WILLIAMS. Since then it has about doubled.

Mr. McDONALD. That is right.

Mr. WILLIAMS. At what rate is it increasing?

Mr. McDONALD. Well, due to the fact that the Federal Housing Administration was a new agency and was, furthermore, charged with administering title I, which was of an emergency relief character, all of the expenses of the Federal Housing Administration until the present fiscal year were carried by the Government. Therefore, any income that we have received went into the fund, and, furthermore, any interest on the money in the fund also accumulated into the fund. Commencing on July 1 of this year, the Director of the Budget instructed us to use a portion of our income to pay our own expenses, as much as $5,000 000 of it, and, therefore, only the difference between our present income and the present income on the $5,000,000 now goes into the fund. Last month, for instance, the total income of the Housing Administration was $581,696.68, and the total expenses were $668,000. You see, we were not quite, even in November, on a self-supporting basis, if you want to put it that way.

Mr. WILLIAMS. In other words, your premiums were not equal to your administrative costs?

Mr. McDONALD. That is true.

Mr. WILLIAMS. For 1 month?

Mr. McDONALD. That is true. Our premiums for the month of November were $411,000.

Mr. WILLIAMS. Your premiums?

Mr. McDONALD. Yes. Our examination fees and appraisal fees were $123,000 and interest on our money, $47,000.

Mr. WILLIAMS. Do you mean to infer from that that the premiums will not pay the operating expenses?

Mr. McDONALD. No; I do not, but you must remember that our premiums are recurring annually for 20 years.

Mr. WILLIAMS. This administrative expense will recur too.

Mr. McDONALD. I understand; but if you have a recurring premium on a policy on a mortgage that is insured in 1937 for the next 20 years that premium will be going into the Federal Housing Administration, but the expense for 1937 just occurs for 1 year.

Mr. WILLIAMS. Yes; but what about the expense for 1938?

Mr. McDONALD. Yes; but we will be getting premiums for 1938, 1937, and 1935, for 1939 you will get premiums for 1938, 1937, and 1935.

Mr. WILLIAMS. What do you figure in the course of a period of 10 years that the income to this fund will be?

Mr. McDONALD. We have made some investigation of that, have we not, Dr. Fisher?

Mr. NICKSON. We have no figures available on that at this time.

Mr. WILLIAMS. Of course, you do figure there will be an accumulation in this fund, do you not?

Mr. McDONALD. You see, this last 2 years the Federal Housing Administration has only had 2 years' income, one full premium in 1936, and another in 1937. Those were the only years that we had any particular income. Previous to that, we were starting business, and we were operating under title I. Now, the premium income of this year exceeds that of last year, and no doubt next year's will exceed this year's.

Mr. WILLIAMS. Let me ask you right in that connection what is your operating expense? What are the operating expenses of this institution?

Mr. McDONALD. They were budgeted at $8,500,000 for this year, and our income for this year should be about the same.

Mr. WILLIAMS. What was it last year?

Mr. McDONALD. Our expenses last year were $10,234,000.

Mr. WILLIAMS. Do you expect them to decrease?

Mr. McDONALD. And the year before they were $12,000,000.

Mr. WILLIAMS. $12,000,000?

Mr. McDONALD. Yes, sir.

Mr. WILLIAMS. Do you expect them to continue to decrease at that proportion, or have you gotten to the minimum?

Mr. McDONALD. No; that difference is largely due to the elimination of title I, and, as a matter of fact, $500,000 of our expenses at the present time are due to winding up title I.

Mr. WILLIAMS. It will be reasonable to assume that your running expenses will be about $8,500,000?

Mr. McDONALD. Yes, sir; unless we are called upon to administer some emergency measures.

Mr. WILLIAMS. Will it increase when you increase the volume of business?

Mr. McDONALD. Up to a certain point, it might, but I do not think our static overhead should increase, or our operating expense should increase in direct proportion to the business that we do.

Mr. WILLIAMS. Do I understand that the premium charge so far on all loans has been one-half of 1 percent?

Mr. McDONALD. Yes.

Mr. WILLIAMS. I notice that this charge of one-fourth of 1 percent seems to be discretionary. It is not mandatory under the present law?

Mr. McDONALD. It is mandatory on these small loans under $6,000 until July 1939.

Mr. WILLIAMS. Until then?

Mr. McDONALD. Yes.

Mr. WILLIAMS. I think it may be waived.

Mr. McDONALD. I thought it was mandatory—yes, it may be.

Mr. WILLIAMS. It is your intention, then, to make that premium one-quarter of 1 percent?

Mr. McDONALD. It is.

Mr. WILLIAMS. What effect will that have upon this insurance fund?

Mr. McDONALD. Of course, taken as it is, it is a very small premium. However, in that connection, I might say it is just twice the premium that the Federal Savings and Loan, through their insurance operations, are charging on all of the Federal savings institutions. They charge one-eighth of 1 percent to insure the deposits, and the deposits are, in turn, invested in mortgages, therefore, if the mortgages are no good the deposit is no good. They have insurance for one-half of this amount. If we had to live on that income alone, I would say it probably would not be sufficient, but with the present scope of the new act, and where we can, or where we expect to get a very substantial volume in rental houses, i. e., partment houses, up to $200,000, as well as large scale rental housing, I am hoping that the income will be sufficient to still carry the Federal Housing Administration without any undue burden on the Government. If it is not sufficient, the Government will have to make up the deficit.

Mr. WILLIAMS. Do you think a quarter of 1 percent as applied to these particular mortgages will still maintain a fund sufficient to pay off all of the debentures?

Mr. McDONALD. I am hopeful that with the additional volume received from the large-scale propositions that will be built, in accordance with our expectations, it will be sufficient. If not, then the Government will have to make good the difference.

Mr. WILLIAMS. As I understand, those large projects are placed in a different category entirely.

Mr. McDONALD. That is true.

Mr. WILLIAMS. There is another insurance fund set up in this bill for them?

Mr. McDONALD. That is true.

Mr. WILLIAMS. It is known as the housing fund in this bill?

Mr. McDONALD. That is true.

Mr. WILLIAMS. Now, what rate do you propose to charge or place on that fund?

Mr. McDONALD. One-half of 1 percent.

Mr. WILLIAMS. Just as you are now doing?

Mr. McDONALD. Yes.

Mr. WILLIAMS. I notice also that the revolving fund that is established, the initial fund of $1,000,000 comes from premiums, or comes from appraisals already collected. How does that happen, Mr. McDonald? How does it happen that you have $1,000,000 of appraisal fees on hand that have not been expended?

Mr. McDONALD. The reason they were not expended was because the Government heretofore has paid our bill.

Mr. WILLIAMS. You just accumulated $1,000,000 of appraisal fees?

Mr. McDONALD. That is true. You see, the Government has paid all of our bills up until July 1 of this year.

Mr. WILLIAMS. You propose to take that fund and establish this housing fund to take care of large projects to start on?

Mr. McDONALD. That is right.

Mr. WILLIAMS. There is a provision in this act that I do not understand and on which I would like to have an explanation. It is section 5. The page seems to be left out of the explanation here. I would like to have you just briefly explain that. It may be perfectly clear to everybody, but let us get it clear as to the eligibility of mortgages for insurance before and after July 1, 1939.

Mr. McDONALD. Will you explain that, Mr. Ferguson? Mr. Ferguson, our counsel.

Mr. WILLIAMS. There seems to be confusion there.

Mr. ABNER H. FERGUSON. You mean the provision as to——

Mr. WILLIAMS. It is section 5 of this bill.

Mr. McKEOUGH. On what page?

Mr. WILLIAMS. It starts on page 2, and the part I am confused about is on page 3.

Mr. McDONALD. What is that intended to mean, Mr. Ferguson?

Mr. ABNER H. FERGUSON. That on and after July 1, 1939, the Federal Housing Administrator shall not insure mortgages on any property which was constructed prior to the date the Housing Act was originally passed. In other words, we could not insure or refinance mortgages on the older houses, except as to mortgages previously insured by the Administrator.

Mr. WILLIAMS. Now, up to July 1, 1939, old as well as new construction can be mortgaged?

Mr. ABNER H. FERGUSON. That is right.

Mr. WILLIAMS, Insured?

Mr. ABNER H. FERGUSON. That is right, as it is now.

Mr. WILLIAMS. It can be insured up to July 1, 1939?

Mr. ABNER H. FREGUSON. That is right; yes, sir.

Mr. WILLIAMS. After that time no mortgage can be insured except on those properties the construction of which is begun after that time?

Mr. ABNER H. FERGUSON. Yes, after June 27, 1934, you see.

Mr. WILLIAMS. What is the reason that does not cover the old building from June 27, 1934, from then on?

Mr. ABNER H. FERGUSON. Because we could not insure a house that was constructed in 1929, for instance. We could not insure a mortgage on a house which was built at any time prior to June 27, 1934.

Mr. WILLIAMS. You believe that exception applies to property constructed after June 27, 1934?

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. Suppose the construction of it was commenced new?

Mr. ABNER H. FERGUSON. Well, it would still be eligible to insurance.

Mr. WILLIAMS. Suppose it was commended after July 1, 1939?

Mr. ABNER H. FERUSSON. Well, it would be eligible. Any house, the construction of which was begun after June 27, 1934, would be eligible for insurance, but no house, the construction of which was begun prior to June 27, 1934, can be insured.

Mr. WILLIAMS. But your first provision limits it to commitments that are made before the construction is begun, does it not?

Mr. ABNER H. FERGUSON. That is right.

Mr. WILLIAMS. And your second one does not.

Mr. ABNER H. FERGUSON. No, I think it covers both of them. I think both conditions under both provisos are appliable. It must be constructed after June 27, 1934, and we must have approved it for mortgage before it was constructed.

Mr. WILLIAMS. You have the word "or" in there, which seems to make it applicable to both classes. For that reason it would apply to a house begun after July 1, 1939, and completed, and then it may be insured?

Mr. ABNER H. FERGUSON. That is right.

Mr. WILLIAMS. Is that it, or must the insurance be committed before the construction is begun?

Mr. ABNER H. FERGUSON. I say in either case. If the property is completed after July 1, 1939, the mortgage, to be eligible for insurance, must be on a property the construction of which was commenced after June 27, 1934, and a property that we had approved for mortgage insurance before it was completed.

Mr. WILLIAMS. In other words, both elements. As I read that section, it does not say that to me.

Mr. ABNER H. FERGUSON. Maybe it can be clarified, but that is the intention.

Mr. WILLIAMS. It does not mean that according to my interpretation of it.

Now, is it your contention that under this bill if enacted or under the present law that the R. F. C. has a right to go out and to organize a national mortgage association?

Mr. ABNER H. FERGUSON. Yes, sir.

Mr. WILLIAMS. On what theory?

Mr. ABNER H. FERGUSON. Well, the act provides that the Federal Housing Administrator may set up these, or create these national mortgage associations, just as the Comptroller of the Currency creates national banks, and that an application for a charter for a national mortgage association shall be filed by five individuals who must be satisfactory to the Administrator, and they are given a charter. Now, if the R. F. C. is authorized under this act to subscribe for all of the stock of a national mortgage association, the only way it can carry out its subscription for all of the stock of a national mortgage association is to set up a national mortgage association.

Mr. WILLIAMS. No, not necessarily, not according to my opinion. You can say under the present R. F. C. that they could simply send out some dummy directors and dummy individuals to organize dummy companies.

Mr. ABNER H. FERGUSON. No, sir; I do not think they would be dummies. I think they would be officials of the R. F. C.

Mr. WILLIAMS. Well, officials of the R. F. C. I did not mean any disrespect to the organization, but they are dummies as far as the organization is concerned.

Mr. ABNER H. FERGUSON. That is running an organization for the R. F. C.

Mr. WILLIAMS. For the R. F. C.?

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. In that respect they would simply be dummies. They would have no interest in it, no personal interest, and no financial interest in it.

Mr. ABNER H. FERGUSON. That is right.

Mr. WILLIAMS. And, you do not mean to say that the Comptroller of the Currency could organize a national bank in that way, do you?

Mr. ABNER H. FERGUSON. No; but I do say that if the Chase National Bank, for instance, wanted to organize a national bank in the State of New Jersey, five officials of the Chase National Bank could file an application with the Comptroller of the Currency for the organization of a national bank in New Jersey.

Mr. WILLIAMS. Yes; if they were bona fide subscribers to the stock.

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. But, of course, these fellows would not be.

Mr. ABNER H. FERGUSON. But if the Chase National Bank was a subscriber to the stock, I mean aside from the interlocking directors and that sort of thing.

Mr. WILLIAMS. You mean to say that one bank can organize another one in your organization?

Mr. ABNER H. FERGUSON. Except for the provisions against interlocking directors.

Mr. WILLIAMS. And except for the fact that they must have bona fide stock, bona fide stock paid up by certain individuals.

Mr. ABNER H. FERGUSON. As a matter of fact, under the incorporation laws of all of the States that is exactly the way a corporation forms a subsidiary corporation, namely, by having a number of its officials file an application for a charter under the State laws.

Mr. WILLIAMS. Yes; that is where it is authorized to do it.

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. But that is just exactly what the R. F. C. does not have the right to do under the law now, as I understand it. We authorized the R. F. C. to establish a relief corporation. That is not the name of it, but a relief corporation to alleviate disaster, a loan corporation in the flood area.

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. We authorized them to do that.

Mr. ABNER H. FERGUSON. Yes. Since the last session, at which this question was raised, I have talked with the general counsel of the R. F. C. and he is satisfied that it can be done. However, if there is any doubt about it, I think there should be a paragraph in this act expressly authorizing the R. F. C. to organizd a national mortgage association.

Mr. WILLIAMS. The first question to decide is whether they should do it or not.

Mr. ABNER H. FERGUSON. That is a question for you gentlemen to decide.

Mr. WILLIAMS. Yes; but is it your thought, as sponsor for this legislation, that it is possible for the R. F. C. to go out and form mortgage associations to make these loans?

Mr. ABNER H. FERGUSON. Yes. They can only under their charter make loans under section 207. They cannot originate small individual household loans under the provisions of the act, but I think myself personally that the national mortgage association provision here is the crux of this whole thing, because I do not see how we are going to get any housing started unless we can get contracts, and the money.

Mr. WILLIAMS. Is it your thought that there will be no national mortgage associations formed unless the R. F. C. forms them?

Mr. ABNER H. FERGUSON. That is a question of conjecture. I have always thought that the reason nobody was interested in national mortgage associations up to this time was because of the restrictive provisions of this act, and we have undertaken to remove those restrictive provisions.

Mr. WILLIAMS. The R. F. C., of course, has been very friendly to this move, and tried to help it. Apparently they do authorize and recognize some of these national mortgage associations.

Mr. ABNER H. FERGUSON. I do not know. They have institutions set up which could handle these mortgages. The RFC Mortgage Co. has been handling some of our mortgages.

Mr. WILLIAMS. Under this act as it is written can a national mortgage association make loans on these small projects?

Mr. ABNER H. FERGUSON. Under $20,000?

Mr. WILLIAMS. Yes; under $20,000.

Mr. ABNER H. FERGUSON. No, sir.

Mr. WILLIAMS. They cannot make those loans?

Mr. ABNER H. FERGUSON. No, sir.

Mr. WILLIAMS. The purpose of this act is to enable them to make loans to the larger projects?

Mr. ABNER H. FERGUSON. The act states in section 301 (a) [reading]:

> The Administrator is further authorized and empowered to provide for the establishment of national mortgage associations as hereinafter provided which shall be authorized, subject to rules and regulations to be prescribed by the Administrator, (1) to purchase, service, and sell first mortgages and such other first liens as are commonly given to secure advances on real estate held in fee simple or under a lease for not less than ninety-nine years, under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby, such mortgages not to exceed 80 per centum of the appraised value of the property as of the date the mortgage is purchased, and to make loans and advances upon, and to purchase, service, and sell mortgages or partial interests therein which are insured under section 207 of this Act.

Mr. WILLIAMS. In other words, the national mortgage association, if organized, could buy and sell mortgages on all kinds of real estate?

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. But they can make loans and advances only for the construction of those projects under section 207?

Mr. ABNER H. FERGUSON. That is right.

Mr. WILLIAMS. The large projects above $20,000?

Mr. ABNER H. FERGUSON. Yes; the large million-dollar loans and that sort of thing. The reason is that there is simply no money for the financing available, and one of the principal difficulties in the administration of section 207 is to find institutions to make those loans.

Mr. WILLIAMS. Have you had any trouble finding institutions that would make loans for the smaller construction?

Mr. ABNER H. FERGUSON. No; I do not think so. Do you mean the individuals?

Mr. WILLIAMS. Yes; the ones under $20,000, on buildings and dwellings?

Mr. ABNER H. FERGUSON. No; I do not think much difficulty.

Mr. WILLIAMS. Has there been any recession in the construction of those homes in the last few months?

Mr. ABNER H. FERGUSON. I cannot answer that off hand.

Mr. WILLIAMS. You have not observed whether or not there has been any decrease in this line or any disposition on the part of people to cease building them?

Mr. POWELL. Yes; there has been about a 35-percent decrease since July.

Mr. WILLIAMS. What is the cause of that?

Mr. POWELL. I imagine it is due to the general rise in the material prices, and labor costs, and uncertainty as to just what was going to be done about this act.

Mr. WILLIAMS. Then there has been a gradual rise in the cost of materials and labor and in the cost of production?

Mr. POWELL. Since July there has been a slight drop in material costs.

Mr. WILLIAMS. What is the cause of that?

Mr. POWELL. That I could not say.

Mr. WILLIAMS. Have you any reason to question that there would be an added impetus given to this rise in the cost of material and labor if you built more houses?

Mr. POWELL. I do not think so. I think under mass production you can produce these houses for a good deal less than they cost now.

Mr. WILLIAMS. By going into mass production?

Mr. POWELL. Yes, sir.

Mr. WILLIAMS. But, how are you going to do that if you build an individual home out in my district and another one over here in Kentucky? How are you going to go into mass production that way?

Mr. POWELL. A marked rise in cost has been in the large metropolitan areas.

Mr. WILLIAMS. Has been what?

Mr. POWELL. The rise in costs has been in the large metropolitan areas.

Mr. WILLIAMS. Has been what?

Mr. POWELL. I say, Mr. Williams, the marked rise in costs has been mostly in the large metropolitan areas.

Mr. WILLIAMS. In the large cities?

Mr. POWELL. Yes, sir.

Mr. WILLIAMS. Well, there has not been a general rise in the cost of production?

Mr. POWELL. I do not think it has affected the smaller communities to as great an extent.

Mr. WILLIAMS. You do not think it has?

Mr. POWELL. No, sir; I do not think it has.

Mr. WILLIAMS. Then what has been the cause of this drop in building in the small communities?

Mr. POWELL. There has not been as great a drop in the smaller districts. The major portion has come in the large metropolitan areas. That is where the drop has been most noticeable.

Mr. WILLIAMS. I am talking about the individual dwellings, you mean that they are building those in the metropolitan areas and not in the smaller towns and cities of the country?

Mr. POWELL. The greater part of our business has come from the larger cities.

Mr. WILLIAMS. Has there been any mass production, as you call it?

Mr. POWELL. Not to any great extent, so far.

Mr. WILLIAMS. Would this bill, if passed, aid to make for mass production as applied to individual homes?

Mr. POWELL. It will stimulate an even flow of capital at a favorable rate.

Mr. WILLIAMS. There is no change in the rate of interest, is there?

Mr. POWELL. No, sir; there is not, except that we are eliminating the service charge.

Mr. WILLIAMS. You think that alone will create a building impetus?

Mr. POWELL. I think it might help.

Mr. WILLIAMS. And create added construction of homes in the metropolitan areas without any increase in the cost of production?

Mr. POWELL. Yes; I think it would help.

Mr. WILLIAMS. You are very optimistic about that. I hope that is correct, but that is putting aside, is it not, every real law of supply and demand, that if we do certain things, if we increase the demand and a building impetus is started and the building program increases, has it not always had a tendency in the past to increase not only the cost of labor but the cost of materials that went into the buildings?

Mr. POWELL. That has usually been the case, but there has always been, in this type of construction, a lack of proper financing, where money could be gotten in reasonable quantities and at a reasonable price.

Mr. WILLIAMS. That would stimulate and add to the volume of building business?

Mr. POWELL. I believe so.

Mr. WILLIAMS. The greater volume the more demand, and the greater demand the higher prices.

Mr. POWELL. That has not always been the case.

Mr. WILLIAMS. Well, now, where has it not?

Mr. POWELL. I did not get your question.

Mr. WILLIAMS. I say, where has not that been the case?

Mr. POWELL. Well, in home construction from 1921 to 1928 the major part of the additional rise in cost was financing charges, the method by which they could get financing for the building of homes.

Mr. WILLIAMS. But there was also an increase in other things, was there not?

Mr. POWELL. That is true.

Mr. WILLIAMS. What has been the history since 1933 or 1934, when this legislation was enacted the first time, until the last act?

Mr. POWELL. There was very little building in home construction from 1930 to 1935.

Mr. WILLIAMS. I mean, say, from 1934 or 1935 until the recent recession in building, what was the history of interest, the prices of labor, and materials?

Mr. POWELL. There was a very rapid rise in the cost of building materials.

Mr. WILLIAMS. What about labor costs?

Mr. POWELL. There were increases in labor costs also.

Mr. WILLIAMS. Was there not an increased cost in building labor of all trades?

Mr. POWELL. In certain types of skilled labor there were increases in wages partly because there was a shortage of skilled labor.

Mr. WILLIAMS. Is not that true generally?

Mr. POWELL. In some instances, in the metropolitan areas, there is a scarcity of skilled labor.

Mr. WILLIAMS. It is true all over the country?

Mr. POWELL. I do not know.

Mr. WILLIAMS. An increased demand, according to the ordinary rule of supply and demand, would increase the price of that labor?

Mr. POWELL. We still feel if there is mass production that might in part be taken care of.

Mr. WILLIAMS. I do not see how you are going to have mass production scattered over individual communities scattered over 3,000 miles of territory.

Mr. POWELL. In the building of homes in certain areas they are building on a larger scale for sale by mass production, and they have been in a position to reduce their costs in better types of construction by better planning.

Mr. WILLIAMS. You mean to say some one contractor would have all of these contracts?

Mr. POWELL. Some contractor might build all the way from 2 to 200 homes, depending on the demand locally for homes.

Mr. WILLIAMS. You mean to limit the construction to just a few contractors in the country and give them a monopoly on the business?

Mr. POWELL. No, sir; we do not.

Mr. WILLIAMS. Then, of course, you throw open the field for every individual contractor to come in and do the work?

Mr. POWELL. That is correct.

Mr. WILLIAMS. Just as it always has been done.

Mr. POWELL. That is correct.

Mr. WILLIAMS. I still do not see how you are going to have mass production in the manner suggested.

Mr. McKeough. Will you yield there?

Mr. Williams. Yes.

Mr. McKeough. I wonder if the gentleman that is now the witness has in mind control of this added cost through this proposal of negotiation that the President refers to in his message with the material men and the labor interests for the purpose of developing an annual wage for labor and a control in the rise of the material cost? Do you have that in mind when you speak so optimistically of this not creating an added cost in material?

Mr. Powell. We had hoped that could be brought about.

Mr. McKeough. Would you state whether or not your negotiations in that direction have led to any basis for your hope?

Mr. Powell. The Administration itself has had no direct negotiations along that line.

Mr. McKeough. It is purely hope?

Mr. Powell. Yes, sir.

The Chairman. Gentlemen, let me suggest, that Governor Eccles is back here this morning, as somebody suggested that he come back. These other gentlemen can be heard later. Governor Eccles has an appointment to go before the Senate committee tomorrow morning, and because of that, I would like to ask Governor Eccles to proceed if he has any further statement to make.

STATEMENT OF GOV. MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Resumed

Mr. Hancock. Mr. Chairman, I think Governor Eccles indicated the other day that he would be willing to discuss the merits of title I as proposed in the amendment reopening it.

Mr. Williams. I would like to have some answers on title III too.

Mr. Eccles. Title I was very successful in its previous operation. It was discontinued at a time when business was going at a much more rapid pace than it is today. It seemed at that time it was neither necessary nor desirable to have the impetus that was given to the activity promoted under title I. I do not know that it has a very important aspect in the present situation. It is felt that it may do some good, that there is a certain amount of work, no doubt, that would be under title I. Whatever work was done here we would be just as much to the good. As I say, I do not think of it as a major matter at all.

Mr. Hancock. Governor, do you think it is right or wise for the Government to encourage 9.7-percent interest charge by indemnifying or protecting the lending institutions against loss? Why not do something to protect the borrower on the same principle?

Mr. Eccles. I think that type of financing is very expensive. The cheapest type of installment financing on a short time basis in small amounts is much larger than 9.5 percent. That certainly does not yield a net return. The larger financing companies, the most successful, those having national operation, get closer to 12 percent on installment financing.

Mr. Hancock. But the Government is not doing anything to encourage that high rate? That's strictly private installment financing which in some cases has been unconscionable.

Mr. Eccles. No; the Government is not doing anything to encourage that. The only way you could reduce the cost of that financing would be for the Government itself to undertake it. If the Government does undertake it, the question is whether or not they could supervise the making of loans and handle the collections and do the necessary work for less money than it can be done by private institutions. I doubt it. Experience in the past has not demonstrated that is so.

Mr. Hancock. Did you testify on title I in 1934?

Mr. Eccles. I do not recall that I did. I do not think so.

Mr. Hancock. Do you know what was the philosophy behind that title, or, rather, its purpose, as announced by its sponsors to this committee?

Mr. Eccles. It was to give employment and business activity and to make possible modernization and repairs.

Mr. Hancock. Was not the philosophy at that time primarily this: That due to the depression there were literally thousands of good citizens throughout the country who had not been able to keep their homes repaired and modernized?

Mr. Eccles. That is right.

Mr. Hancock. And it was the thought of those who were sponsoring the legislation that through title I you would allure capital out of hiding and stimulate credit into action for those laudable purposes in order that roofs might be repaired, and other badly needed structural improvements made to homes. It was also clearly understood that those loans under this title would not require security. I think if you will go back and read the testimony you will find that they were to be strictly character loans. Now, as a matter of fact, we all know that title I was administered primarily as a selling agency for a number of concerns in the United States, and I think the Administrative record will show that the original purpose was recklessly distorted. I wonder if you know anything about it? May opinion is that the time is not far off when we will all be ashamed of what happened. I tried in vain on two separate occasions to stop it.

Mr. Eccles. To the extent that we permitted equipment sales, I think that was true.

Mr. Hancock. I am not charging bad faith to the present F. H. A. Administration in making this statement, because they have admitted that they were helpless in their control over it, for witness after witness from the F. H. A. has come before this committee and described the slipshod method employed in its operations. As a result, they were also insuring second-, third-, and in several instances, fourth-mortgage loans which in some instances amounted to racketeering on a wholesale basis all of which will "out" one of these days. Do you approve of that?

Mr. Eccles. You mean under title I?

Mr. Hancock. Yes, sir.

Mr. Eccles. As I understand it, the loans they made were unsecured loans. We anticipated that there would be a substantial loss, but it was much cheaper than unemployment relief to the extent that you got $300,000,000, $400,000,000, or $500,000,000 of expenditures in this field, even though there would be a loss of as high as 10 percent. The loss in the operation, I am informed, in spite of loans on equipment, will not exceed 2 percent. I therefore feel that the whole

thing was well justified. If, by a loss of 2 percent on a $500,000,000 operation, which is $10,000,000, if $10,000,000 of Government funds is expended to induce $500,000,000 to be spent, it is one of the cheapest methods of giving business activity that I know of.

Mr. HANCOCK. If it is revived, as some sponsors of this legislation seem to think it ought to be, how do you think it ought to be applied, and what type and character of loans should be made under it?

Mr. ECCLES. I think it should be applied strictly for the repair of homes. I should not say homes strictly, but strictly for the repair of buildings. It should not include equipment that can be readily detached, and which is not a part of the structure.

Mr. HANCOCK. You certainly would not want the taxpayers to guarantee garage bills, as they were doing would you? In other words, a man could take his old automobile to a garage and have $50 or $250 worth of repairs done on it and the F. H. A. be liable for 20 percent of the bill but know nothing whatever as to the persons responsibility. You would not want the Government to again engage in that type of insurance with taxpayers money, would you?

Mr. ECCLES. I hardly think that question requires an answer. It would go without saying that is certainly an abuse of the intention, that the law should not permit any type of loan to be made except it represented work done on a structure, that really improved the structure.

Mr. HANCOCK. We are certainly in agreement on that. Now, Governor, let me ask you another question dealing with a different section of the bill. I want to get a practical application of the operations of this measure, and paricularly as it would relate to low rental projects in the Southern States. Let's assume that there are a group of citizens in a community in North Carolina that are interested in rehabilitating an area that is badly backward from a housing standpoint or developing a suitable new area. They want to build 50 or 250 homes to cost not to exceed $2,000 apiece. They own the land which is worth for this purpose 20 percent of the total housing project but they cannot arrange the financing. If we pass this bill, how would they proceed to go forward with that construction program?

Mr. ECCLES. Under title I?

Mr. HANCOCK. Under any part of it, but particularly section 207 or 210?

Mr. ECCLES. Well, are you speaking of the promoters of the project?

Mr. HANCOCK. What?

Mr. ECCLES. Are you speaking of the corporation owning the project, or of an individual owning a project to build homes to sell?

Mr. HANCOCK. Either one.

Mr. ECCLES. Well, they would apply to the F. H. A., present their plans, and apply for insurance, 90 percent.

Mr. HANCOCK. But they would have to be owner-occupants to get 90 percent insured loan. My question refers to builders interested in providing better housing for renters in the low-income class.

Mr. ECCLES. That is true; to get 90 percent. When they were sold, all they could get would be 80 percent, so long as they held the property, and the proposal here is that they could build, they could put up $200,000 value, and get an 80-percent loan, and provide for a release to the purchaser who was the owner-occupant of the house, who would in turn get a 90-percent loan.

Mr. HANCOCK. That is exactly what I wanted to bring out and have clear in the record. In other words, to start off with, they would only be able to get 80 percent insurance. But when they sold to a citizen for owner-occupancy, the purchaser could apply and get insurance up to 90 percent under the provisions of section 203. That is correct; is it not?

Mr. ECCLES. That is right. The reason for that is today they sell these properties, and the individual seldom pays more than 10 percent down, and sometimes 5 percent. He does not get title to the property, and he is not protected in the same sense that he is under this program where he makes a direct application and he gets title to the property, or gets a 90-percent loan, and the 90 percent is based upon the appraisal not of the seller of the loan but the F. H. A. Now, the average real-estate concern today will sell a home of that sort under a contract, but will not take a down payment of 10 percent or a 5-percent down payment, and the charges and the rate and the sale price are usually much higher than would be the case under a plan of this sort. This seems to me to protect the ultimate home buyer.

Mr. HANCOCK. Do you happen to know what percent of those who have applied for F. H. A. insurance were turned down because they could not furnish 20 percent equity or payment?

Mr. ECCLES. Well, I do not know. I do not think that would be a criterion, because most people would not make an application in the first instance, knowing that they could not make the 20-percent down payment, knowing that was required. Therefore they would not want to go to the expense of making application and making an appraisal, knowing in the beginning that they could not make the 20-percent payment.

Mr. HANCOCK. In order to make this program sound and successful, and, of course, all of us are interested in making it a success, is it not essential, Governor, that we keep in mind three factors, first, the man who wants to own a home, secondly, a man willing to speculate in building a house; and thirdly, reasonable means of financing in either case. I would like to see a sound and feasible mechanism worked out under Government stimulation and encouragement that would accomplish the President's objectives, but frankness compels me to question the effectiveness and fairness of these proposals without considerable modifications to first protect the existing lending institutions and secondly insure their needed and necessary cooperation on a profitable basis.

Mr. ECCLES. I am glad you asked that question and I would like to make some suggestions for the consideration of the committee in connection with some tax exemptions with reference to a portion of this program, and it will possibly tend to answer also some of Mr. Williams' questions.

Mr. HANCOCK. Before you proceed further may I place this thought in your mind? If we authorize the liberalization of the provisions relative to the establishment and operations of national mortgage associations one way is to permit them on certain conditions to issue debentures up to 20 times the amount of the capital. There is a provision in here or in the President's message authorizing the R. F. C. to furnish capital up to $50,000,000 which could be expanded by debentures up to $1,000,000,000. Would the debentures of a national mortgage association, as I now understand, be nontaxable?

Mr. ECCLES. No; they are taxable. They are not nontaxable.

Mr. HANCOCK. They would be taxable?

Mr. ECCLES. Yes.

Mr. HANCOCK. All right. Then can you tell me why any financial institution would care to invest in those debentures in preference to an insured mortgage loan, when the loan or mortgage is redeemable in case of default with a Government-guaranteed tax-exempt 3-percent bond or debenture?

Mr. ECCLES. It is not tax exempt. That is another point. It is a Government mortgage, but it is not tax exempt.

Mr. HANCOCK. I see. That of course makes a difference and I also appreciate the fact that maturities would also play a part.

Mr. ECCLES. I think I can answer those questions.

Mr. HANCOCK. Remember I am seeking information so that I may know what I am doing and why——

Mr. ECCLES. Now, the dilemma always seems to be, in the first place, that the cost of finance is too low, and, on the other hand, it is too high. I think 5-percent financing on this type of loan, the 90-percent one in particular, I question very much that financing institutions are going to be interested in making 90-percent loans at 5 percent.

I will give you my reasons: In the first place, many of these loans are made for sale. There is not sufficient money in the territory often to take care of the needs of the territory, and there are excessive funds in other territories. There is building very often in one section, where there is no building in another section of the country. The funds, we know, move from one area to another. Insurance companies are typical cases.

The 5-percent rate for 20 years on a monthly payment plan where the amount of work is involved as it is involved in this type of an operation means that at least three-quarters of 1 percent is the very minimum of a service charge that an institution can buy on. The insurance companies that had agents usually allowed on the individual homes 1 percent and I do not think it was ever less than three-quarters of 1 percent, so that we will take 5 percent less three-quarters of 1 percent, which would make 4¼ percent, which would be the net on a mortgage that an insurance company purchased or an investory purchased, or that a corporation may purchase.

The 4¼ percent would be subject to a tax. The tax to the corporation is approximately 15 percent. That would reduce the yield on that net to about 3¼ percent.

We are in competition with tax-free securities. A 20-year Government bond today sells on a basis of 3 percent, or very close to it, with a tax-free feature, the normal tax, and 15 percent for that corporation, which would mean the equivalent of 3½ percent. In other words, we would have to have a security that would yield 3½ percent to be comparable to a 20-percent Government bond yield.

As I mentioned the other day, the Government is paying 2.9 percent on your baby bonds. There is a tax-free feature there. That is, for a bond, if it is carried to the 10-year maturity, it runs about 2 percent after the second year.

Now, let us assume that the R. F. C. sets up this mortgage association, and they purchase insured mortgages on a 4¼ percent basis, allowing three-fourths of 1 percent, which they certainly would have to allow for the handling and the servicing of these mortgages. You have got to remember there was a $4,000 average. You have got to remember 3¾ is on the diminishing balance, not on the original balance. That leaves 4¼ percent for the R. F. C. or the mortgage company. A mortgage company selling debentures non-tax-free, if they are not tax-free, would have to get more, certainly, than 3½ percent, if they be a long-term debenture.

In other words, the criterion is competition for your security. I am not favorable to tax-free securities of any kind, and personally I wish there were some way of completely eliminating the tax-free feature from all Government, municipal, and quasi-Government securities, but inasmuch as that is not the case, I should like to have this committee consider, inasmuch as this financing is in competition, in a sense, with the tax-free financing of States, counties, and cities, that the debenture issued, the 3 percent that is issued in lieu of a defaulted mortgage, be made tax-free. I do not mean free from all tax, but I mean free from normal tax, the same as the other securities, that the debenture on the mortgage associations be put in the same category as the debentures of the home-loan bank, and also the Farm Credit set-up debentures.

Mr. FISH. They are all tax-free?

Mr. ECCLES. That is right, that there is every justification for the debentures of the mortgage association, just as there is for home financing, to be put in that category.

Mr. FISH. In other words, if there is any justification for any form of tax-free securities, it should be for this purpose?

Mr. ECCLES. That is right.

Mr. FISH. And you are willing to waive your objection in this particular case, but not in the others?

Mr. ECCLES. So long as we have that competitive situation, as I said a moment ago. I feel reasonably sure that financial institutions would much prefer to buy, if they are going into a long-term bond, they would much prefer to buy a Government bond which would give them the equivalent of 3 percent in taking into account the tax-free feature.

Mr. FISH. Exactly.

Mr. HANCOCK. May I continue with my questions?

Mr. FISH. May I ask a few questions?

Mr. HANCOCK. Pardon me, but I had not finished.

Mr. FISH. All right.

Mr. HANCOCK. I want to know what real changes we are making in the F. H. A. that will or should, as the President desires, make it attractive to private funds in the construction of houses and homes. That is the purpose of all these questions.

Mr. ECCLES. Now, we will take the 90-percent loan at 5 percent. If that loan has to be foreclosed, there will be the absorption of the foreclosure cost, just as has been brought out here, running as high as 10 percent in some States, and that would have to be absorbed by the lending institution. After it absorbs that, what does it get? It gets a 3-percent 20-year debenture which matures 3 years after the mortgage. Now, the mortgages, where the payments are made over 3, 4, or 5 years, will be the last likely to default. The defaults will come in the first years, while the equity is small. So that the debenture issued in lieu of the property, that is, the 3-percent debenture, which at present is not tax-free, would be approximately a 20-year debenture.

Mr. HANCOCK. Governor, let me ask you right at that point, not as an official of the Government, but as a banker, which would you consider the sounder investment, the F. H. A. debenture, or a National Mortgage Association debenture?

Mr. ECCLES. Why, I would much prefer a national mortgage association debenture. It depends entirely on the maturity, of course.

Mr. HANCOCK. Why?

Mr. ECCLES. Because I think it will have to yield more than 3 percent.

Mr. HANCOCK. But it would not be Government guaranteed, would it?

Mr. ECCLES. I know, but it has got the original capital, and, in addition to the capital, it has those insured mortgages, and certainly they would be yielding more than 3 percent, the insurance mortgages.

Mr. HANCOCK. Aside from its capital its value in the final analysis would depend largely upon the soundness of the loans insured by the Federal Housing Administration, would it not?

Mr. ECCLES. That is very true, but also on the having of a bad depression the mortality on the loans certainly is not going to be 50 percent at any time. The mortality of loans is likely to be comparatively small.

Mr. HANCOCK. I do not know whether I have made myself clear. What I am trying to get to is just this: Under this proposed set-up, is it reasonable or unreasonable to conclude that practically all of the money, for construction of housing will be furnished by the Government rather than by private financial institutions? It looks to me as if we are about to put the Government deeper into this field of endeavor—of course, I may be wrong.

Mr. ECCLES. No, no.

Mr. HANCOCK. Do you really think the banks will buy the debentures of the National Mortgage Association?

Mr. ECCLES. I see no reason why they would not.

Mr. MCKEOUGH. If they are tax exempt?

Mr. HANCOCK. I am talking about the debentures under the present language of the bill.

Mr. ECCLES. I think they should be made tax exempt inasmuch as they are in competition with other tax exempt securities.

Mr. HANCOCK. The reason then that you feel that way is because you do not believe they offer an attractive investment unless they are tax exempt?

Mr. ECCLES. No; but what I feel is that the rate on them will possibly have to be nearly a half percent more than otherwise would be the case, that they would have to sell at a high enough rate to be attractive. Now, if they sell at that rate, it is a question if they will have enough margin to operate, or if they have enough margin with which to operate, the question is then if they will buy the insured mortgages at a price that will leave institutions that will sell them enough to pay for the servicing. If not, then the institutions in that situation are not interested in marketing the mortgages.

So, I feel, in order to take from the 5-percent rate three-fourths of a percent, leaving 4¼ percent, I think it is desirable to allow a leeway there of three-fourths of a percent to the mortgage association so they would be able to sell their debentures around a 3½-percent basis, especially the long-term debentures. At least there ought to be some leeway there. If they can sell them at 3¼ or 3, depending on the long-term interest rate, so much the better.

Mr. HANCOCK. Governor, tell me—if you know—why has it been necessary for the F. H. A. to go to the R. F. C. for financing of its insured mortgages?

Mr. ECCLES. They have not gone, as I understand it, to the R. F. C. The R. F. C. has stood in a position of where it acted as a market. In the absence of a mortgage association it bought these individual mortgages, sold some of them, and redistributed some of them.

Mr. HANCOCK. Why do they have to pass through the hands of another Government agency before they are attractive to the public?

Mr. ECCLES. Because there is a mortgage institution that makes these loans that does not have the capital to loan to the community. It ought to be able to sell insured mortgages somewhere.

Mr. HANCOCK. If it has been impossible or impractical for a national mortgage association under the language of Title III as amended in 1935 to operate on a sound and profitable basis what is there in the proposed amendments here that makes it a sounder set up or more attractive, if anything for private capital?

Mr. ECCLES. Of course, we can approach this thing from the standpoint of saying that if you did not have a Federal Housing Administration then would we have what we had before it as a means of mortgage financing? There are no institutions except building and loan institutions that make high mortgage loans that could legally do it. The State banks, the national banks, the savings banks, and the insurance companies were restricted to making loans of from 50 to 60 percent. That meant that such loans as that, made on a straight 50 or 60 percent, brought into play the second and third mortgage. It brought into play what we had during the twenties, so that the average home owner or the builder who built to rent was paying on an average for his money better than 10 percent. Now, without this mechanism that is what we would have, and this, by the way, is a complete reform of your whole mortgage market.

Mr. HANCOCK. Governor, that reformation in mortgage financing has been going on for quite a long time. To my mind it is the outstanding accomplishment of the F. H. A., but there were a lot of home financing institutions engaged in single amortized mortgage financing long before the F. H. A. was inaugurated.

Mr. ECCLES. That is true, but the only single-mortgage financing that got up to 80 percent were the building and loan companies, and look at the rates they got for the single 80-percent mortgage.

Mr. HANCOCK. How did their rates compare with the rates of commercial banks, on short-term straight mortgages, if you know?

Mr. ECCLES. The commercial banks did not make a single mortgage except on a 50 percent straight-mortgage basis, and the commercial banks were restricted and looked with disfavor upon real-estate mortgages.

Mr. HANCOCK. I am not talking about that phase of it, but I am talking about what is the comparison in interest rates.

Mr. ECCLES. As to the commercial banks, the only long-term mortgages that they are making are being made on the basis of the F. H. A.

Mr. HANCOCK. What rate did they charge prior to the inauguration of the F. H. A.? As a banker you have made them yourself, have you not?

Mr. ECCLES. Where they made a straight loan of 50 percent, which was all they were permitted to make, up to 5 years, these rates varied depending upon the part of the country. The rates ran, I would say, all the way from 5 to 8 percent. That was the usual rate, but what we need to provide here is to get away from the second and the third mortgage. If you want to use private capital, then it seems to me you have got to set up a mechanism, and then, if this is not it, then I do not know how it is possible to devise one. Actually, you can get an 80- or 90-percent loan that is available for all types of financing institutions. You cannot leave it to one group of institutions because the funds that the building and loan companies have are only a small part of the total investment funds.

Mr. HANCOCK. What I want to see done—and I am sure you want to see it done, and I am sure every other Member that is interested in this legislation wants to see done—is to make the program attractive to the home owner and all of the lending institutions, so that we can get some homes built, put good men to work, and stimulate the building industries and general business activity.

Mr. ECCLES. Yes.

Mr. HANCOCK. Will this bill do it? If not, how should it be changed so it will do it?

Mr. ECCLES. We want it attractive to the extent, at least, that they will be willing to make the loan, and, after all, when it comes to the question of figuring years, they will be making a 5-percent loan that involves various costs, and it is a 20-year loan. You therefore have to compare it with what is in the investment field by way of a 20-year loan that is comparable, and you get into 3½ percent yield with practically no servicing charge fee, a Government loan, and you get into 4 and 4½ in the high grade other bonds, 20-year bonds with no service charge.

Mr. HANCOCK. Governor, you have studied this money situation and I know you have for many months been giving it thorough concentration. When it flows freely and in the right direction all is well; otherwise all is wrong. Do you know of a single private dollar that is ready to become a part of the capital stock of a national mortgage association?

Mr. ECCLES. I do not know of any, and I do not care whether private capital goes into the mortgage association or not at this time. The important thing here is to create a mechanism that will provide the 80- and 90-percent loans.

Mr. HANCOCK. You would not have much of a mechanism for making loans without money, would you?

Mr. ECCLES. All right, but if the mortgage association sells its debentures to insurance companies or the savings banks and other banks, there are many institutions that lend money on direct mortgage loans that will buy debentures for trust notes, for insurance funds and other funds, just as they buy debentures of the Home Loan Bank System, and just as they buy debentures of the Farm Credit Administration, and just as they buy bonds of the Federal Farm Mortgage Corporation. We have no reason to doubt but what the mortgage association can sell their debentures just as readily as these other agencies sell their debentures.

Mr. TRANSUE. And that is on the assumption that they are going to get an equalization in the way of a tax-exempt debenture?

Mr. ECCLES. To meet the disparity you speak of, if you do not get that, the debenture, as a result, sells at a higher rate, and then if it has not the higher rate to appeal in the first instance an institution is not willing to make the loan.

Mr. MCKEOUGH. Assuming that the adjustment is made in keeping with the recommendations in the financial side of this picture and is put forth on an attractive basis to meet the competition of securities in the way of Government and municipal tax-exempt obligations, that the solution of this problem is cared for, then we have two remaining, the material side and the labor side. On the assumption, of course, that we have people in a position to buy homes and willing to do it, are you satisfied, in the event that we adjust this tax-exempt situation, that we will have control over the other two factors, namely, material and labor, control that will serve to guarantee all three factors being together, and the beginning of construction instituted as a result of that procedure?

Mr. ECCLES. I certainly have not yet.

Mr. MCKEOUGH. You have not?

Mr. ECCLES. No, sir, not yet.

Mr. MCKEOUGH. Then there is no assurance to the country that we are going to begin to reach the objective that the President seeks in his message on this important subject?

Mr. ECCLES. You cannot get all three things, together. It seems to me you have got to do what you can with no arrangement dealing with the material or labor problem and other elements, because you are not going to get very far unless you have a financial mechanism, and we are assuming you have that——

Mr. MCKEOUGH. What I am trying to get at is the practicability of this scheme.

Mr. ECCLES. That involves the whole question of the economy. What may be a shortage of homes under normal conditions of employment becomes a surplus of homes under a condition of unemployment.

Mr. MCKEOUGH. Exactly.

Mr. ECCLES. Now, there is no shortage of homes in the sense that there are not places for people to live of the kind there are, but there is a shortage of the type of homes that people ought to be able to live in in an economy such as ours. So that, after all, we might say that there is no shortage of automobiles even if there were no new automobiles being sold to people. People can ride in old cars for an awfully long time, and people can live in very old, dilapidated, unsanitary, inadequate houses for a long time, and there would be no housing shortage because the demand for houses would not exceed the supply, but the very good reason for that is that the buying power of the people was such that due to unemployment or recession that you have not a housing shortage. This whole thing, then, as to whether you have got a house, as to whether you need houses, goes to the question of the extent to which recession has stopped and recovery is brought about. Now, with a proper housing set-up, it would tend greatly to material recovery——

Mr. HANCOCK (interposing). It would reverse the present move toward unemployment the other way, and that is primarily the purpose of this whole set-up.

Mr. ECCLES. At least this would be a mechanism that would tend certainly to make it easier to do that than if you had no housing mechanism available.

Mr. McKeough. What I am seeking to find out from the witness is what, in the judgment of this witness, we ought to do, and naturally assuming that the witnesses that have come before the committee have studied the possibilities of this.

Mr. Eccles. Yes.

Mr. McKeough. Now you come with a suggestion that looks as though it might be timely from the standpoint of what we ought to do to get it in shape to have it started.

Mr. Eccles. That is right.

Mr. McKeough. Now, I am thinking, in addition to that factor, which is one of the three major factors of the problem, of what, in your judgment, could be the other. In a general way you have indicated very hopefully that the other two factors might be controlled by cooperation on the part of the two groups engaged in the other two factors. Now, I want to know what we can do as a result of your suggestion and the suggestions of the other witnesses that have appeared before the committee, what we might do in the way of making changes in the proposed draft of this legislation that will better insure, insofar as it is humanly possible, what that particular amendment should be in the existing law so that we could proceed in starting a building program.

Mr. Eccles. The amendments as proposed, in my mind, meet the situation about as fully as they can be met under this set-up. I am not making a recommendation with reference to this tax matter. What I am merely doing here is to point out to you the problem and suggesting that it should be given by this committee serious consideration if you want to get the benefit of these lower financing costs that are proposed in this bill. The 3-percent debenture that an institution gets for its mortgage is a mortgage that is sold. The great bulk of these mortgages will not be sold. The very fact that they cannot sell them to a mortgage association will, in itself, encourage the institutions to make seasonals out of surplus funds, holding them without any thought of selling, but the fact that there is no market, that there is no place that they can sell them, will, in the first instance, tend to prevent them from making a long-term loan of this sort. Therefore, the mechanism is twofold. First, to encourage the institution, because there is some marketability for the notes and funds and to sell those securities of the mortgage association and issue debentures and go to the capital markets.

In other words, the supplying of funds where they are in excess to those particular areas and the communities that are debtor areas that have not funds sufficient in amount within the area to take care of building in the area, but the 3-percent debenture that the institution gets, in case it holds the mortgage, of course it cannot sell to the RFC Mortgage Association if the mortgage is in default, but when they have foreclosed this mortgage, they should get, it seems to me, the 20-year or longer 3-percent debenture should be comparable with a 20-year 3-percent security of another type. If a 20-year Government bond bearing 3 percent is selling at par, then a 20-year debenture that is not tax-free would be selling at a substantial discount. That, in turn, would be a deterrent to a financial institution taking an insured mortgage, because it is not only necessary to foreclose and sustain the cost of foreclosing, but finally if you sell that 3-percent 20-year debenture, it sells for less than par.

I merely bring out some of the questions that, naturally, are going to be raised by institutions when they say, "Why should we participate in this fund when we can go out into the market and buy, without a third of the trouble and the work, and so forth?"

Would not the same question be raised by the material men and the labor men, "Why should we take loans?"

Mr. Eccles. The material men are taking losses at the present time.

Mr. McKeough. They are not selling anything.

Mr. Eccles. Well, they are selling, but you take the lumber prices. Lumber at the mills is down on an average of 25 percent in the last 2 or 3 months.

Mr. McGranery. Governor, in what month did the labor and material costs start sliding off?

Mr. Eccles. Well, the labor costs have not gone off at all. I think the actual material cost has gone off practically none, but so far as the amount billed today is concerned, I think it is quite bad from the point of origin in the raw product.

Mr. McGranery. I understood you to say the other day, Governor, that both material and labor costs had slid off somewhere around 5 percent.

Mr. Eccles. I do not think so. I said the wholesale prices of materials showed a recession, just a very slight trend down, in the last 2 or 3 months, but so far as labor is concerned, I know of no recession. In fact, we had an increase in the cost of building materials. The price of materials in the early summer I think pretty well stopped going up and went along a level keel, whereas labor costs continued to advance up until, I think, about July, as I recall the charts. I am merely giving you this from memory. I am not entirely accurate.

Mr. McGranery. Governor, one of our country's foremost builders told me the other day that on this Government Printing Office annex bids were submitted last July, but that if those bids were readvertised today the annex could be built at a saving of $1,000,000 to the Government over the bids which were submitted last July.

Mr. Eccles. I think that possibly may be true, and no doubt with the present recession and the lack of business there would be considerable competition for the business. I think a builder today, if he went out to build 15, 25, or 200 houses, could build them considerably cheaper than he could have done it 60 days ago, and that he could get very close figuring and bidding on materials.

Mr. McGranery. Then what would be the effect if he did launch into a housing program here, what would be the effect on the price of labor and material?

Mr. Eccles. Of course, I cannot take the point of view that to stimulate activity in this bill that we would necessarily have to get an increase in the price of labor and material. If such is the case, then the assumption is that we should continue with the great army of unemployed and that the Government should take care of them on relief rather than doing something to get private industry going.

Now, we had in 1925 over 900,000 housing units. This year we will not exceed one-third of that, and should not exceed one-third of what we had last year. If we are going to permit racketeering and monopolistic practices in labor in some of these areas, and if it is

going to continue to promote capitalistic practices of some of these material people, and if a small group is going to put up continually the cost of such an essential thing as housing so that the rest of the people cannot afford to buy it, then I do not know that there is any solution, but it does seem to me that after all the Government has got to be a government of all of the people, and not for a small group that will resort to practices that throw the economy out of balance.

Mr. TRANSUE. Governor, what suggestions have you to remedy that situation? That is what we want here.

Mr. ECCLES. So far as the situation is concerned, let us get this mechanism and then let us see what can be done by way of cooperation, and if it is not possible to remedy some of these situations that put people out of employment, and that cause business to lose its business, then it may be that some other method will have to be used to bring down those costs and pull down the costs in order to build, then we have to pay the costs in some other bill. We have either to choose whether we are going to put down costs in one field in relation to consumer-buyer power, or are we going to put up the income in the unorganized groups, so that they are not put at a disadvantage compared with the organized groups.

Mr. MCGRANERY. Do you not think it would be good business on the part of the Government if they can erect this Government Printing Office annex at a saving of almost a million dollars over the prices at July 1, do you not think it would be a good thing to rebid or to readvertise for bids?

Mr. ECCLES. After all, I suppose it is a question of available funds——

Mr. HANCOCK. Your idea, and the idea of every other sponsor of this bill, is to, just as far as possible, make it attractive for private capital to invest in the construction business?

Mr. ECCLES. That is right.

Mr. HANCOCK. And to do all you can to take the Government out of that field as long as the private institutions are willing to cooperate on a fair basis with the borrower and the Government?

Mr. ECCLES. That is right.

Mr. HANCOCK. Will this bill, as now drafted, do that or not? That's what it is supposed to do, and what I am anxious to know, will do.

Mr. ECCLES. I think it will be very helpful in doing it, other things being favorable, the two things that I have mentioned here, which, as I say, I have given some consideration.

Mr. CRAWFORD. Governor Eccles, will not this plan and the mechanism created in this bill bring about a situation where the process will result in the banks using their excess reserves and thereby assist along that line also? In other words, it will bring about directly and indirectly through the sale of debentures an increase of private borrowings from the commercial banks? It means that in substance, does it not?

Mr. ECCLES. Any mechanism that creates or brings about bank credit creates money. Whether the Government finances it through deficits or borrowing, the more money they take care of, the difference between what they spend and collect, creates new money to the extent that banks buy Government securities, and to the extent that individuals buy them and put them, it puts into velocity that money which is idle, and to the extent that individuals later buy these debentures it puts into velocity money that is idle, and to the extent that banks take them it creates new money.

Mr. CRAWFORD. What would you think about having the banks authorized to sell discounted certificates of deposit along the same plan on which the Government is now selling savings bonds, making them payable in 3, 5, 7, or 10 years, and then letting the Federal Deposit Insurance Corporation insure those certificates up to, say, $5,000, as at the present time, so that the banks could, in turn, take the money thus secured from the sale of those discounted certificates and use that along with funds raised in this manner to finance homes? Has there been any consideration of that?

Mr. ECCLES. I think that would be bad, and I do not think it is necessary. I think that the building and loan associations are the ones to issue certificates. The banks are institutions of deposits, commercial and savings deposits, and to the extent that they have funds they loan, and to the extent that they are overloaned, then they should borrow money from the community by issuing some form of obligation at a high interest rate or at an interest rate they would have to pay in order to attract the funds. They are able to do it today by paying 2½ percent on the savings funds, but to the extent that people do not put their funds in the bank at that rate, then they should be permitted to pay more than that. However, most of them do not pay that. Most of them do not pay more than 1½ percent, because they have no outlet for their funds. There is an excess of funds today available for lending, and so far as this particular program is concerned there is no derth and inadequacy of funds, taking into account the various types of lending institutions. There is an abundance of funds available.

The difficulty that arises is a 20-year investment program at a 5 percent rate that involves considerable expense. If it were a 5-year commitment, there would be no question of getting a rate considerably below 5 percent. You could get plenty of funds at 4½ or even 4 percent, but when you get a 20-year amortized program, and there is possibility of getting 3½ percent net and assuming the cost of foreclosure, it does not make it very attractive unless you get this other feature in it.

In the British system, as I understand it, the lending institutions, where they loan on a long-term basis, they adjust the rate at the end of a 10-year period, adjust the rate depending upon whether there is inflation or deflation from the time the loan was made. I do not know that that is practicable here. I doubt it, as we have not developed a mechanism for handling that.

Mr. CRAWFORD. Can we not soundly contend that one of the real purposes of this bill is monetary reform through the creation of this mechanism that you have referred to?

Mr. ECCLES. It is a reform in the mortgage market. It is getting away, as I said a while ago, from the type of financing that prevailed during the '20's, that resulted in the building collapse and the whole real-estate picture, and if we had long-time amortized loans, we would not have had anything like it.

Mr. MCKEOUGH. And there was another factor, worthless securities.

Mr. ECCLES. That is right, and here you have an agency to check the proposals in addition to the institutions——

Mr. TRANSUE. The success of this program depends upon whether or not private lending institutions will loan on the 90-percent plan, is that not right?

Mr. ECCLES. That is a very important part of it.

Mr. TRANSUE. What assurance, if any, have we that they will make such loans?

Mr. ECCLES. If the mortgage association stands ready to take an insured mortgage, say, at 4 or 4¼ percent, that in itself will make the success of this possible, and the absence of that, I think, would defeat it completely. There would be nobody interested in a 90-percent loan.

Mr. CRAWFORD. Governor, I think your statement has made it very clear to us that it is necessary for us to resort to these indirect methods of monetary control. What would you think of the Federal Reserve Board being given power to absolutely originate and force into operation new money? Even control the flow of money?

Mr. ECCLES. I do not know just how it would force it into operation. The way to get money into operation is for the Government to spend more than they collect. If you spend more than you collect, you create that budgetary deficit that puts money into operation. The Federal Reserve System can carry out what we term the open market operation, which is buying securities in the market, but that does not put money into circulation. To the extent that we buy Government bonds from banks, it adds to their reserve.

Mr. CRAWFORD. I understand that.

Mr. ECCLES. They sell their bonds or notes, and they have in place oi them reserve money in their banks, excess reserves, but that does not create any new deposits. All it does is substitute in the bank idle money for its present ownership of securities. They all have an abundance of idle money in that form, but that in itself is of no particular value unless you have people willing to borrow, because it is profitable to do so, and also unless you have the will on the part of the institutions to loan, which they certainly have while they have excess funds, and if good credit is offered. The question is whether it is good credit, and today there is an abundance of funds available for 1½ percent on short-term commercial loans. So that the Reserve System cannot put money into the hands of the person out of employment or the person without money. That can only go in through budgetary deficits.

Mr. CRAWFORD. This moves in a direction which does better enable the Board to control the flow of money somewhat, does it not?

Mr. ECCLES. No, no. This adds no mechanism whatever to the Board's control.

Mr. CRAWFORD. I should not say the Board's control, but when the banks take their present deposits and other banks take their present deposits and buy these debentures, it is equivalent directly or indirectly to the bank's making a loan to borrowers?

Mr. ECCLES. That is right, it would put new money into circulation.

Mr. CRAWFORD. That puts new money into circulation?

Mr. ECCLES. Yes; that is right.

Mr. CRAWFORD. At the same time, to that extent, it does enable the Board in the manner in which there are rules and regulations of the Banking Act, enables the Federal Reserve authority to somewhat control the flow of money into this particular undertaking?

Mr. ECCLES. Well, any member bank, or even nonmember banks, of the system can make these insured loans or can buy debentures. If they do not choose to make loans, they can buy debentures.

Mr. CRAWFORD. If the banks proceed, then, to buy these debentures in that way, does it not at the same time put into operation a great amount of present excess reserves?

Mr. ECCLES. Well, some of it.

Mr. CRAWFORD. It would result in that?

Mr. ECCLES. That is right, it would tend to. For every $500,000,000 of loans that were made, they would use $100,000,000 of the excess reserve out of $1,000,000,000.

Mr. CRAWFORD. When banks have little occasion to seek advances from Reserve banks, isn't it true that the discount rate and open-market operations as a means of credit operation become quite ineffective?

Mr. ECCLES. Well, the discount rate is ineffective to the extent that banks do not have to borrow. However, with the huge number of banks in the country there will always be a few. You cannot have a situation where with thousands of banks all of them at all times might have excess reserves on hand.

Mr. CRAWFORD. I am very friendly toward this mechanism as designed here, to create a mechanism which will induce the member banks to take their present deposits and invest in the debentures and thereby directly or indirectly bring that excess money, which is excess reserves, into building operations thereby tearing down the excess reserve mountain which is now before us, and which, after all, prevents the discount rate and the open market operations from becoming really effective. Is that not one of the things that this bill does? Can we say that and be correct in so saying?

Mr. ECCLES. I think that the bill has very little to offer in the way of relief to either the discount rate or the open market operations of the Reserve System.

Mr. CRAWFORD. But if the excess reserves are to be disposed of, will that not——

Mr. ECCLES. There will be no borrowings to dispose of the present excess reserves in their community. There would have to be a credit expansion there, that is, a mechanism of $5,000,000,000 to $7,000,000,000, and that would assume it was all done by the bankers. Now, what this will do is, it will put into circulation possibly trust funds that are idle, that are on deposit in the banks. The velocity of funds is very low today. It would put it into insurance surpluses that are not invested, and to the extent that commercial banks buy these debentures then it would create new deposits and would put into circulation those funds. It would create new money only to the extent that was done.

Mr. WILLIAMS. I have one more question, Mr. Chairman.

The CHAIRMAN. Mr. Williams.

Mr. WILLIAMS. I would like to ask you, Governor, whether or not you think it is a good policy at this time for the R. F. C. through public funds to establish mortgage associations to make loans?

Mr. ECCLES. Yes, I think it is a very good policy.

Mr. WILLIAMS. Do you think they have that right as the law now stands, Governor?

Mr. ECCLES. I think if they have not they should be given the right.

Mr. WILLIAMS. There is not a word in this act about it.

Mr. ECCLES. I understood that they had that power. If there is any question about that, I think that should be cleared up.

The CHAIRMAN. Yes; undoubtedly.

Mr. WILLIAMS. Thank you, Governor.

The CHAIRMAN. Are there any further questions?

Mr. REILLY. Yes; I would like to ask the Governor some questions.

The CHAIRMAN. Mr. Reilly.

Mr. REILLY. Do you think, Governor, that it would be a sound financial program for the R. F. C. to buy 90-percent mortgages?

Mr. ECCLES. I think the mortgage association to be set up here with $50,000,000 capital to buy any insured mortgage is a sound operation, because, in the first instance, if they have an opportunity to buy it means that men have gone to work building houses, and it would stimulate business activity. In other words, if we can contribute $50,000,000 of R. F. C. funds and in turn can create building and business activity with the loss of the whole $50,000,000 it is very cheap subsidy as compared with relief appropriations. I am not saying it is a subsidy, but I am merely saying, if it were, it would be very cheap.

Mr. REILLY. Under this bill, judged by your past experience with the F. H. A., would the R. F. C. have to buy all of the mortgages?

Mr. ECCLES. No. The R. F. C. will only buy a small part of the mortgages.

Mr. REILLY. Is it not a fact that the reason why the F. H. A. had to go to the R. F. C. to buy its mortgages was because they are not attractive to the public as 80-percent mortgages?

Mr. ECCLES. No, sir; that is not correct, because the R. F. C. bought, about, not more than, around 5 percent of the total insured mortgages. Therefore there must be some attraction to other investors besides the R. F. C.

Mr. MCKEOUGH. Is it not true that by the adjustments you suggest it is feasible to make for parity between the present tax-exempt securities, and that it would encourage even further participation on the part of investors?

Mr. ECCLES. That is right, I think it would.

Mr. MCKEOUGH. And further reduce the liability of a rescue by the R. F. C. by way of continuing to assist in the creation of a national mortgage company?

Mr. ECCLES. Yes; I think so.

Mr. TRANSUE. What is the average interest paid on savings deposits throughout the country, if you can tell me, Governor?

Mr. ECCLES. Well, it varies. It is from, I would say, 1 percent to 2½ percent.

Mr. TRANSUE. How does that compare with the interest rate paid by the banks in the '20's?

Mr. ECCLES. In the '20's it ran from 3 percent to 4 percent.

Mr. TRANSUE. And will not a great deal of the money that goes into these mortgages, if they are purchased by the banks, be money that is on deposit in the savings banks?

Mr. ECCLES. That is very true. Otherwise the savings banks or the banks would not invest in them. They are prohibited from investing in any type of mortgage except up to 50 or 60 percent of their short-term funds, or an amount equal to the capital or surplus whichever is greater.

Mr. TRANSUE. And the reduced interest rate on savings would be some incentive for them to invest, would it not?

Mr. ECCLES. They have available today for investment your triple A high-grade bonds yielding from 3½ to 4 percent with a ready marketability. They also have available, of course, your Government securities, your guaranteed Government securities, your home loan bank debentures, your farm credit debentures, and they have available today all of those securities, and if we expect them to be interested in making these loans, then we have got to compete with the credit instruments that are now available for their investment.

Mr. TRANSUE. The credit instruments proposed by this act will be as good security as any of those things you have mentioned?

Mr. ECCLES. I think it will, and if not, they will not be interested in investing. However, there is still the question of foreclosure, and the question of the loss they may take, and that is why I raise the question about the 3 percent debenture they get. It would tend to increase their interest in it and willingness to loan if they were put on a comparable basis with other tax-free investments.

Mr. MCKEOUGH. Governor, would you be good enough to suggest in a memorandum to the chairman or the members of the committee what you think might be the rate that would equalize this existing disparity, and thus make more attractive these proposed debentures?

Mr. ECCLES. I will; yes.

The CHAIRMAN. Thank you very much, Governor. We will meet tomorrow morning at 10:30.

(Thereupon, at 12:45 p. m., the committee adjourned until tomorrow, Wednesday, December 8, 1937, at 10:30 a. m.)

AMENDMENTS TO NATIONAL HOUSING ACT

WEDNESDAY, DECEMBER 8, 1937

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 11 o'clock a. m., pursuant to adjournment, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Goldsborough, Reilly, Hancock, Williams, Spence, Farley, Meeks, Ford of California, Brown, Patman, McKeough, Transue, McGranery, Barry, Wolcott, Fish, Gifford, Luce, Crawford, and Gamble.

The committee had under consideration H. R. 8520, the administration housing bill.

The Chairman. Gentlemen, the committee will come to order. Mr. Ferguson wants to be heard about 2 minutes in order to make a correction of his statement of yesterday. You may proceed, Mr. Ferguson.

STATEMENT OF ABNER H. FERGUSON, GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION

Mr. Abner H. Ferguson. Mr. Chairman, yesterday in answer to a question by Mr. Williams I find that I made a mistake in construing section 5 of the act, on page 3. Mr. Williams asked me if that meant that after July 1, 1939, we could insure other mortgages covering new construction or mortgages covering property constructed after June 27, 1934, and my recollection is that I answered that the mortgage had to comply with both of those provisions. That is not the meaning of the section, and I think Mr. Williams was correct in his construction that if this provision is enacted, after July 1, 1939, we would be entitled to insure three classes of mortgages.

First. Those that cover property which is approved for mortgage insurance prior to the completion of the insurance, that is under construction.

Mr. Williams. Regardless of when construction is begun?

Mr. Abner H. Ferguson. If we approved the mortgage before construction was commenced.

Second. Covering property, the construction of which is commenced after June 27, 1934. That would be existing construction in connection with houses which were constructed after that date and would leave out of our eligibility requirements or our power to insure mortgages on houses which were constructed prior to June 27, 1934, except those cases in which there is aleady an insured mortgage on those houses. Houses on which there is an insured mortgage could

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be under this section refinanced with a new insured mortgage. That situation arises from this fact that a man owns a house which is covered by an insured mortgage and sells the house and he either wants to be relieved from the obligation on the note or the seller wants to put a new mortgage on the property with different terms and different amortization payments and they release the old insured mortgage and put on a new insured mortgage. We would be able to insure that.

Those are the three classes that we would be permitted to insure after July 1, 1939.

Mr. WILLIAMS. That matter is not clear to me yet. To say that is your intention that the owner of those mortgages covering property the construction of which was commended June 1——

Mr. ABNER H. FERGUSON (interposing). You mean June 27, 1934?

Mr. WILLIAMS. Yes; and the construction of which was not completed before the mortgage. In other words, you intend to cover all construction after 1934, do you not?

Mr. ABNER H. FERGUSON. That is about right.

Mr. WILLIAMS. But you do not propose to cover anything after 1934 unless the mortgage is approved before the construction is completed?

Mr. ABNER H. FERGUSON. Oh, no; that is not the intention here.

Mr. WILLIAMS. That is not the intention here?

Mr. ABNER H. FERGUSON. No. The intention here is to——

Mr. WILLIAMS (interposing). Then, it seems to me, you should qualify the part of it that refers to June 27, 1934, by saying the property the construction of which was begun before that time or after that time and completed before July 1, 1939, if that is what you mean.

Mr. ABNER H. FERGUSON. You mean we should put in there that the construction must be begun after June 27, 1934, and completed prior to July 1, 1939?

Mr. WILLIAMS. Is that your intention?

Mr. ABNER H. FERGUSON. I do not see how that case could possibly arise. I do not think it could possibly take 5 years to complete one of these little houses.

Mr. WILLIAMS. Suppose it was begun on June 1, 1939?

Mr. ABNER H. FERGUSON. On June 1, 1939?

Mr. WILLIAMS. Yes.

Mr. ABNER H. FERGUSON. It would be insurable.

Mr. WILLIAMS. But not until completed?

Mr. ABNER H. FERGUSON. That is right. We do not insure any of these houses until completed, although we give a commitment to insure.

Mr. WILLIAMS. The commitment is made during construction?

Mr. ABNER H. FERGUSON. Yes.

Mr. HANCOCK. Under the new provision commitment must be made before completion of construction?

Mr. ABNER H. FERGUSON. After July 1, 1939, under this bill, we can insure any mortgage which we approve for insurance prior to beginning of construction, which of course can only apply to houses constructed after the enactment of the act and those for which we had issued a commitment based upon approval prior to that time, which applies, of course, to new construction in either case.

Mr. HANCOCK. May I ask one other question right here. What is your concept of the purposes and functions of the national mortgage associations authorized to be set up under this bill?

Mr. ABNER H. FERGUSON. The national mortgage association that is intended to be set up under this bill as I understand it, has this function. It sets up the machinery under which the financing of these projects and homes under this bill may be participated in by individuals, trust funds, endowment funds, big lending institutions, and other lending agencies who do not want to buy the mortgages.

Mr. HANCOCK. In other words it would be for all practical purposes a Government-owned and a Government-directed mortgage discount bank, would it not?

Mr. ABNER H. FERGUSON. Pretty nearly. But here is the point. Of course what we want to do is to siphon the money from the sources that now have the money to invest, who are not willing to invest in insured mortgages for one reason or another, principally because they do not want the responsibility for servicing but are willing to take a low-yield security. We want to siphon those funds into the financing of these loans. Now the way we do that is to set up this national mortgage association with $50,000,000 of Government money, if you please, which is its capital. Now that amount of money is contributed or is put into the project by the Government, but that is only a small part, or about 5 percent of the financing that can be made available under the program.

Mr. HANCOCK. You mean if the private financing institution will invest in the debentures of the National Mortgage Association?

Mr. ABNER H. FERGUSON. That is right, because for every dollar of capital the mortgage association has it may issue $20 of debentures which will permit them to issue a maximum of a billion dollars of debentures with the further restriction that they cannot at any time have outstanding debentures in excess of the amount of their mortgages, Government bonds, and their cash, so they are always backed by these securities.

Mr. HANCOCK. It gives a 5-percent margin?

Mr. ABNER H. FERGUSON. Yes. They are backed by the insured mortgages, the investments, and the capital.

Mr. WILLIAMS. In addition to what you said, it is not only a discount bank or agency for the mortgages, but it is intended under the terms of this bill to make direct loans to large projects under section 207.

Mr. ABNER H. FERGUSON. That is right, and that is put in, as I understand it, because that is the one field where there has not been available financing.

Mr. WILLIAMS. And also makes those advances during the construction of these big projects?

Mr. ABNER H. FERGUSON. Yes, sir.

Mr. WILLIAMS. Is it your idea—you spoke of $50,000,000 to be put into the mortgage association by the R. F. C.—that there will be only one organization?

Mr. ABNER H. FERGUSON. That is a detail that I do not think has been worked out. Whether it would be one with $50,000,000 capital with branches over the country, or two having $25,000,000 capital or five, having $10,000,000 capital, that has not been worked out definitely, but I think the plan probably contemplated was to organize

one big mortgage association and to have branch lending agencies scattered over the country.

Mr. WILLIAMS. Of course, this bill provides for the organization of mortgage associations, does it not?

Mr. ABNER H. FERGUSON. This bill does and the original bill too.

Mr. WILLIAMS. Of course it is not the intention of the bill to confine it to one?

Mr. ABNER H. FERGUSON. No.

Mr. WILLIAMS. But it is your expectation and your hope, and the expectation and hope of those who sponsor the legislation, that the Government will put that money into it?

Mr. ABNER H. FERGUSON. That is right.

Mr. WILLIAMS. They have no hope of getting private capital?

Mr. ABNER H. FERGUSON. I do not know. The fact of the matter is that question has not been tried out because of objections that are made to the present law. However, by these amendments in the bill, we are making the National Mortgage Association a much more attractive investment than it was before these amendments went in. In other words, it removes a great many obstacles that existed under the original act.

Mr. WILLIAMS. The original purpose of this entire program was to induce private capital to go into that business?

Mr. ABNER H. FERGUSON. Yes, sir.

Mr. WILLIAMS. Is this not entirely opposed to that philosophy?

Mr. ABNER H. FERGUSON. No; I do not think so. By the Government putting up $50,000,000 they will induce private capital to invest a billion.

Mr. WILLIAMS. But it is putting $50,000,000 into this?

Mr. ABNER H. FERGUSON. Yes, sir.

Mr. WILLIAMS. Not only as a discount agency, but as a direct lending agency?

Mr. ABNER H. FERGUSON. They can only buy these small loans.

Mr. WILLIAMS. Private capital has not been interested in this proposition at all?

Mr. ABNER H. FERGUSON. Yes; they have been interested and lost interest when they found the difficulties.

Mr. HANCOCK. To that extent it would only be in competition with large insurance companies? That's as far as it should go in my judgment——

Mr. ABNER H. FERGUSON. We think the insurance companies would be interested in buying these debentures.

Mr. HANCOCK. If there is any competition it would be between the Government and these large insurance companies and not with the strictly home and thrift institutions. I want that made clear——

Mr. ABNER H. FERGUSON. Yes; that is practically the only outlet.

Mr. SPENCE. I would like to know the limitation of the national mortgage association. Can they only make direct loans on large projects?

Mr. ABNER H. FERGUSON. That is right.

Mr. SPENCE. Section 210 says [reading]:

> In addition to mortgages insured under sections 203 and 207 the Administrator is authorized to insure mortgages as defined in section 207.

Does that have any effect on the National Mortgage Association?

Mr. ABNER H. FERGUSON. Oh, no. The act has provided——

Mr. SPENCE (interposing). Could the National Mortgage Association make a loan in advance on a $16,000 mortgage as provided in section 210?

Mr. ABNER H. FERGUSON. It says that may buy and sell mortgages.

Mr. SPENCE. Section 210 seems to be an enlargement.

Mr. ABNER H. FERGUSON. No; in order not to repeat the definition of a mortgage we simply state "in addition to mortgages insured under sections 203 and 207."

Mr. SPENCE. You think there is no ambiguity to that at all?

Mr. ABNER H. FERGUSON. I think not.

Mr. SPENCE. That is your construction and the administration's, that they cannot loan on those smaller projects?

Mr. ABNER H. FERGUSON. That is right.

Mr. WILLIAMS. What is the meaning of this provision on page 18 about the purchase of stock in one of these corporations of the National Mortgage Association to the amount of $100?

Mr. ABNER H. FERGSON. That is purely a question of control. We require these limited dividend corporations that are provided for in section 207 to operate under a charter which is in accordance with requirements of ours, and one of the requirements is that that corporation shall provide in its charter for a special stock which carries no dividends, but which has the right under the charter in the event the corporation defaults under the mortgage that the administrator may, under the ownership of that stock, take over the management of the company until the default is cured. In other words, it is simply an effort to prevent these large projects from being bled during a time when they are in default, as, of course, one of these large projects can deteriorate very fast and we want to be able to take over the thing in the event that mortgagor is not paying the amortization.

The theory of the thing is exactly the same as is provided in numberless corporations which give the preferred stock the right in the event dividends are passed on preferred stock to take over the management of the company until the ownership is restored.

Mr. WILLIAMS. You think ownership of $100 worth of stock would give you that right?

Mr. ABNER H. FERGUSON. I think so if the charter says so.

Mr. WILLIAMS. That is something new?

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. The organization of purely private corporations going into the business.

Mr. ABNER H. FERGUSON. You mean the corporation under section 207?

Mr. WILLIAMS. Yes.

Mr. ABNER H. FERGUSON. That is now existing law.

Mr. WILLIAMS. Purely a private corporation without any limit on the dividends?

Mr. ABNER H. FERGUSON. Oh, yes; that is in the present act.

Mr. WILLIAMS. Where?

Mr. ABNER H. FERGUSON. Section 207.

Mr. WILLIAMS. If that is in there, that is news to me.

Mr. ABNER H. FERGUSON. Section 207 is as follows.

The CHAIRMAN. What page are you reading?

Mr. ABNER H. FERGUSON. Page 10. Have you our amendments? [Reading:]

SEC. 207. The administrator may also insure first mortgages, other than mortgages defined in section 201 (a) of this title, covering property held by Federal or State instrumentalities, private limited dividend corporations, or municipal corporate instrumentalities of one or more States, formed for the purpose of providing housing for persons of low income which are regulated or restricted by law.

Mr. WILLIAMS. That is all that is applicable?

Mr. ABNER H. FERGUSON. Except that they must be regulated either by law, as the State housing authorities are, or by the administrator as to rents, charges, capital structure, rate of return, and method of operation.

Mr. WILLIAMS. I am saying again you have in this bill all that is in the original bill, and in addition this bill provides for the creation of purely private corporations.

Mr. ABNER H. FERGUSON. Well, the present act——

Mr. WILLIAMS (interposing). Except as applied to limited dividend corporations.

Mr. ABNER H. FERGUSON. They are limited under this amendment.

Mr. WILLIAMS. Where?

Mr. ABNER H. FERGUSON. On page 17, beginning with section (b)—

in addition to mortgages insured under section 203 the administrator is authorized to insure mortgages as defined in this section, which shall include advances thereon during construction, which shall cover property held by—

(1) Federal or State instrumentalities, municipal corporate instrumentalities of one or more States, or limited-dividend corporations——

Mr. WILLIAMS (interposing). Right there, that is just the same in substance as the old act?

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. Title II adds private corporations, or section 2?

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. Let me ask you this: Why did you add subsection 2 to it? Is that not an addition to it?

Mr. ABNER H. FERGUSOH. Well, it is simply a broadening of the thing to make it clear.

Now this subsection 2, "private corporations, associations, or trusts formed or created for the purposes of (a) rehabilitating slum or blighted areas."

Mr. WILLIAMS. I am going to ask you again if that is something new?

Mr. ABNER H. FERGUSON. No. I am going to tell you why.

Mr. WILLIAMS. You have not, so far.

Mr. ABNER H. FERGUSON (reading):

Private corporations, associations, or trusts formed or created for the purpose of (a) rehabilitating slum or blighted areas, or (b) providing housing for rent or sale, and possessing powers necessary therefor and incidental thereto, and which corporation, association, or trust until the termination of all obligations of the administrator under such insurance, are regulated or restricted by the administrator as to rents or sales, charges, capital structure, rate of return, and methods of operation to such extent and in such manner as to protect the housing fund hereinafter created.

Mr. WILLIAMS. Now, that is not in the original act, is it?

Mr. ABNER H. FERGUSON. Yes.

Mr. WILLIAMS. That is part of it?

Mr. ABNER H. FERGUSON. Certainly.

Mr. WILLIAMS. Where?

Mr. ABNER H. FERGUSON (reading):

The administrator may also insure first mortgages, other than mortgages defined in section 201 (a) of this title, covering property held by Federal or State instrumentalities, private limited dividend corporations, or municipal corporate instrumentalities of one or more States, formed for the purpose of providing housing for persons of low income which are regulated or restricted by law or by the administrator as to rents, charges, capital structure, rate of return, or methods of operation.

Mr. WILLIAMS. That is a limited-dividend corporation?

Mr. ABNER H. FERGUSON. It does not make any difference whether you call it a "limited-dividend corporation" or not. This is a limited-dividend corporation because they cannot pay out anything on the investment except as provided.

Mr. WILLIAMS. You provided for limited-dividend corporations in subsection 1, did you not?

Mr. ABNER H. FERGUSON. Yes. They are semipublic organizations, organized under these State housing authorities. They are not agencies of the State but they are set up under the laws of the State and are controlled and regulated by the States. In order to broaden this thing and get out of that semipublic corporation we wanted to get private money into these things so we put the private corporations in it, but regulate them in exactly the same way.

Mr. WILLIAMS. That is what I have been saying all the time. You put purely private corporations in here regardless of whether they are limited by law and give the administrator power to regulate them.

Mr. ABNER H. FERGUSON. Practically all the mortgages we have insured under section 207 are private corporations. All of them. The mere fact you call a corporation "a limited-dividend corporation" does not make it any more limited than if you do not call it such and provide it shall be limited.

Mr. WILLIAMS. In no case it is limited by law?

Mr. ABNER F. FERGUSON. No; it is just a phrase—"a limited-dividend corporation." Now we say a private corporation must be a limited-dividend corporation under this act by reason of the regulations to be set up.

Mr. WILLIAMS. The regulations?

Mr. ABNER H. FERGUSON. I mean the law.

Mr. WILLIAMS. The limitations or regulations by the administrator, under your construction, would make it a limited-dividend corporation

Mr. ABNER H. FERGUSON. Yes; and we do limit the dividends they can take out of the property per year on their investment, and all other earnings over and above the dividends, we do not permit them to distribute, but it goes to the amortization of the mortgage.

The CHAIRMAN. Mr. Farley is recognized.

Mr. FARLEY. I am interested in the statement you made just a few moments ago that private capital had not been sufficiently interested to take over this proposition.

Mr. ABNER H. FERGUSON. I was referring to the 209 loans.

Mr. Farley. Just a moment, please. Do you not think you could liberalize your regulations and this law so they would be induced?

I am very much interested in a lot of questions that have been propounded and answered here in these hearings, but it seems that some of us, at least, are trying to make it awfully hard for capital to come in. We are just raising the barrier as high as possible, and what we need to do is to make it easier for capital. I want to ask you something about the regulations.

You know of the Lincoln Life Insurance Co.?

Mr. Abner H. Ferguson. Yes, sir.

Mr. Farley. One of your best buyers?

Mr. Abner H. Ferguson. Yes.

Mr. Farley. What about this matter of "waste," how about that in your regulations? What is that all about?

Mr. Abner H. Ferguson. Well, Congressman, that is an interesting story. When we first prepared these regulations, March 15, 1935, just after I went with the Administration, we provided the property should be in good condition instead of saying it should be undamaged by waste and one of the big insurance companies objected to that phrase because they said "We do not know what you mean by that," and I said, "What would you suggest we do?" They told us to use the term "waste" because everybody in the mortgage business knew what the term "waste" meant. So, I communicated with a number of the leading title lawyers with whom we had conferred before the regulations had been adopted and asked them what they thought of changing it to "waste." They said they thought it was a good change, so we changed it to "undamaged by waste." Then a short time after that, one of the other big life insurance companies in the country came in and said, "Why have you got 'waste' in here?" I told them because the other life insurance companies thought it was the better term. These title lawyers also thought it was the better term, and they said, "We do not know how we can put you in the middle between us, but will you write us a letter giving your definition of 'waste?' "

And we did that. We wrote them a letter giving them a definition of the term "undamaged by waste"—not only wrote them a letter, but sent out a bulletin to every single one of our mortgagees construing the term "undamaged by waste," and while I do not recall the exact language it meant in good condition, allowing for wear and tear and depreciation.

Mr. Farley. Do you think under your authority in the present act there is a chance to set up money in a fund to take care of certain things that are charged to a man buying a mortgage? I have this in mind. Sometimes when a man loses his home by foreclosure he gets very angry and in this particular case he took a crowbar and knocked out one side of the house. [Laughter.] Did you not think if the Government steps in there would be less of this?

Mr. Abner H. Ferguson. I think there would be a great deal more. In the first place that is a risk that mortgage lenders have always taken in uninsured loans and therefore under this act we are only insuring them against a loss of their principal, and therefore they should assume the same responsibility as others, and the mortgage gives them the right to go in and make repairs as it did in the case of an uninsured mortgage.

In other words, Congressman, what it means is, if we took that phrase out, that we would have to take over every piece of property

that was offered to us, just as is, in any kind of condition, without radiators, without chandeliers, without anything in it, and those repairs would have to be paid out of the funds of that group and charged to all other mortgages in that group account.

Now I want to say this, that I do not think there has been a substantial complaint made of that phrase except by the Lincoln Life Insurance Co.

Mr. Farley. You do have to make your loans attractive. That is the thing you have to do. I just wonder if you need a little more authority to make them more attractive. I do not think they are and the fact the RFC Mortgage Co. has absorbed about 17 percent of these mortgages indicates the public are not enthusiastic, and I as one member of this committee, am open to the most liberal proposition you can possibly write.

Mr. Ford. May I ask a question there, What percentage of the 17 percent has the RFC sold back to the insurance companies?

Mr. Abner H. Ferguson. The RFC has purchased only 5 percent of all FHA insured mortgages. I do not know the exact amount they have sold. I know they did sell over $2,000,000 of mortgages to the treasurer of the State of New York and as of September 30 they had sold 17 percent of the mortgages they had purchased.

Mr. Ford. And they sold to several insurance companies too?

Mr. Abner H. Ferguson. I think so.

Mr. Ford. Is it not a fact that some of the insurance companies that originally refused to make a loan later bought that same loan at a discount?

Mr. Abner H. Ferguson. I think as a matter of fact they bought them at a premium.

Mr. Farley. Just one more question. Is there any opportunity in this legislation to make a uniform foreclosure price, or is that entirely out of the realm of this committee?

Mr. Abner H. Ferguson. It is one of the most deterring factors in this whole program. In my judgment the outrageous foreclosure laws in a number of the States in the Union will hold back any program that is devised anyway, because it just costs too much money to foreclose mortgages in many States. We also have somewhat of a deterrent in connection with the redemption period.

Mr. Farley. You covered that the other day, but is there any suggestion we could write into this that would lead to that, or is that strictly in the hands of the State legislators?

Mr. Abner H. Ferguson. I think the only way we could do it here is to absorb it ourselves which would be a subsidy, and I think it ought to be handled through the State legislatures.

Mr. Spence. Do you think it is sound public policy to make a loan to a man who has only a 10 percent equity in his home?

Mr. Abner H. Ferguson. I think it is a sound loan.

Mr. Spence. These loans are going to be made under high pressure salesmen. They are going around and you know it is pretty easy to persuade a man to overreach himself?

Mr. Abner H. Ferguson. They have been doing it for years. I venture the assertion that in the District of Columbia, and that is the only place I have any knowledge of, that possibly 80 percent of the houses in this town are sold on less than a 10 percent down payment.

Mr. SPENCE. How many of these mortgages go up to 80 percent?

Mr. ABNER H. FERGUSON. I think it was said the other day our average on new homes is less than 76 percent.

Mr. SPENCE. What percentage of all go to 80 percent?

Mr. ABNER H. FERGUSON. I do not know. Perhaps Dr. Fisher could tell us, but I do not have the figures.

Mr. SPENCE. The reaction is very bad when a man makes a loan and cannot carry it and a good many of those people feel they ought never have gone into the H. O. L. C. because they cannot carry the loan along.

Mr. ABNER H. FERGUSON. Let me amplify what I just said. Now, and for years, houses have been sold on a 10-percent down payment. True, you had the first mortgage of 60 percent, but you had your old friend, the second mortgage, but these mortgages that we are insuring under this proposal are confined to mortgages approved by us for insurance before the building is started. What does that mean?

That means we examine the credit risk and character of the borrower, we look over the plans for those buildings, we determine whether they are soundly planned, we know where they are located, and we inspect those properties during construction three times in order to see that they are built in accordance with the plans and specifications.

Mr. SPENCE. Are you going to see that the purchaser gets value received for the money in the form of materials put in construction?

Mr. ABNER H. FERGUSON. That is what the inspection is for, and he cannot get the mortgage under the express terms of this act as it stands now unless we find on examination that his income justifies him in paying this monthly payment.

Mr. SPENCE. You make an appraisement and the lending institution makes an appraisal?

Mr. ABNER H. FERGUSON. Some do and some take ours.

Mr. SPENCE. Do you usually agree on those appraisals?

Mr. ABNER H. FERGUSON. I only know of one instance. I was talking to the mortgage man at the Riggs National Bank and he said as a matter of curiosity he had compared their appraisals with ours on 50 mortgages, just picked them up here and there in the portfolio, and the net difference in the whole 50 was less than 5 percent on appraisals.

Mr. SPENCE. As a rule these 90-percent mortgages will not come to you voluntarily but will be solicited. The lending institutions will have employees that will solicit this character of business.

Mr. ABNER H. FERGUSON. Yes; all business is solicited.

Mr. SPENCE. And the constructors and promoters will be interested?

Mr. ABNER H. FERGUSON. Yes; but I say this, those 90-percent mortgages with the long-term payments are sounder than the present 90-percent mortgages.

Mr. SPENCE. I am thinking of the borrower, because if he cannot carry on he will lose everything.

Mr. ABNER H. FERGUSON. Nevertheless, I still think they are sound. When a man buys one of these houses and it costs him less to pay the payments on that house than he is currently paying for rent, and he has a steady job, I think he is in position to buy a house.

Mr. SPENCE. Have you any facts with reference to the 90-percent mortgage under the old system; that is, where the borrower had borrowed under first and second mortgages 90 percent on the property?

Mr. ABNER H. FERGUSON. Yes.

Mr. SPENCE. Have you any figures?

Mr. ABNER H. FERGUSON. As to the casualties?

Mr. SPENCE. As to the percentage.

Mr. ABNER H. FERGUSON. I do not think the casualties have been any higher than a lower-rate mortgage.

Mr. SPENCE. The gentleman over there is going to give us some figures.

The CHAIRMAN. Are you through with Mr. Ferguson?

Mr. PATMAN. Just one question.

Mr. CHAIRMAN. What I was thinking was we might finish with Mr. Ferguson first.

Mr. SPENCE. Let this gentleman give us the figures.

Mr. FISHER (Director of Economics and Statistics, Federal Housing Administration). The distribution is as follows: 47 percent of our mortgages are for between 76 and 80 percent of the appraised value; 17.6 are between 71 and 75 percent; 11.9 between 66 and 70 percent; 7.8 between 61 and 65 percent; and the balance, under 60 percent, are about 8 percent.

Mr. SPENCE. What are the percentage of foreclosures?

Mr. FISHER. Fifty-seven cases foreclosed with debentures issued or authorized in about 200,000 mortgages insured.

Mr. SPENCE. You have not been in business long enough to have a complete record?

Mr. FISHER. We have a complete record, but not typical yet.

The CHAIRMAN. All right.

Mr. REILLY. Is it not possible to limit the foreclosure fees in the mortgage contract?

Mr. ABNER H. FERGUSON. That is a big question.

Mr. REILLY. Up in the State of Wisconsin where the mortgagor has inserted in the mortgage the solicitor's fee shall not exceed so much, the courts recognize that agreement and sustain it.

Mr. ABNER H. FERGUSON. Yes; but in some States it has been construed that the foreclosure has to follow the machinery devised by statute for such process, otherwise it is not possible to pass the title.

Mr. REILLY. Why cannot you people devise something?

Mr. ABNER H. FERGUSON. We are right now making a very careful study of that. I understand that Mr. Horace Russell, of the Home Owners Loan Corporation, devised a power of sale mortgage in order to avoid the high foreclosure cost and some title company raised the question whether title could be passed if the foreclosure was not carried on in accordance with the statute.

Mr. REILLY. Carried on in accordance with the agreement, though?

Mr. ABNER H. FERGUSON. But they are taking the position the statute sets up the machinery for foreclosure and the only way good title can be passed is by following the statute.

The CHAIRMAN. Mr. Luce is recognized.

Mr. LUCE. You gave us one reason that the national mortgage association did not function, and that was because, in the matter of big building, private capital was not available. Now if private capital was not available the inference is that prudent and experienced men of affairs had concluded that investments in hotels and apartment houses were unsafe.

Mr. ABNER H. FERGUSON. Of course we do not insure hotels.

Mr. LUCE. Are they not classed as large buildings?

Mr. Abner H. Ferguson. We only insure large housing buildings.

Mr. Luce. Well, even confining this to apartment houses. In my own neighborhood four State banks, what we call trust companies, went on the rocks by reason of financing apartment houses, and in the 17 years since I have been here I have watched Washington apartment houses go downhill and many, many persons in Washington have suffered by reason of their investment in securities of apartment houses. Do you think, sir, it is a justifiable thing for us to invest public funds in the most dangerous type of investment that I know of?

Mr. Abner H. Ferguson. I do not think it is the most dangerous type of investment if it is soundly financed to start with. The difficulty with apartment houses in Washington that got into trouble was that they were overloaded with financing costs and bled for the first 5 years. They bled the apartment houses during the best period, and when they became less desirable because of newer apartments and the rents were consequently reduced, there was nothing left to take care of the investor.

Mr. Luce. That aided the downfall of this investment, but it does not meet the fact that apartment houses deteriorate in public favor rapidly with the erection of new apartment houses with better facilities of one type or another, quickly making the old apartment house undesirable.

Mr. Abner H. Ferguson. The rent frequently has to be reduced.

Mr. Luce. Yes.

Mr. Abner H. Ferguson. But we require them to set up reserves to take care of such things as that. We limit the amount of money they can take out of earnings and require them to pay any surplus over dividends earned on the further reduction of the mortgage. The amount charged for rent is upon a schedule which is agreed on at the time we insure the loan so our experience with four or five projects built here in Washington shows them 100 percent occupied. They are 100 percent occupied because the rent was just below the scale of other apartment houses since they were built without these enormous costs which were inherent in the old apartment-house cost. There is a waiting list on all of them.

Mr. Luce. That does not meet the fact that apartment houses deteriorate rapidly.

Mr. Abner H. Ferguson. We require them to set up reserves for repairs.

Mr. Luce. You do not meet my point, and that is that changes in the taste of the public are rapid; and so I come back to the original question: Why should we go into the field of public investment which is judged universally throughout the country to be a dangerous field?

Mr. Abner H. Ferguson. I do not think these apartment houses that are insured are dangerous.

Mr. Luce. But the public at large and the financial world thinks otherwise. How are we to lend money for big construction when the private investor will not do it?

Mr. Abner H. Ferguson. One thing about these things, these are all moderately low rental apartment houses. They rent from $12 to $14 a room, the ones built in Washington, and the New York Life Insurance Co. took five or six, the Prudential, the Union Central of Cincinnati, but we have just not been able to get others interested in them.

Mr. Luce. I happen to be a director in a small mutual company out of which I make no money, and if we ever loan any more money on apartment houses the situation will have to be very much changed.

Mr. Abner H. Ferguson. Of course, we have not had much experience in apartment houses so far, but there is not a single one in default at all and most of them are somewhat ahead in amortization payments.

Mr. Luce. Your views do not meet the views of those engaged in this business.

Mr. Abner H. Ferguson. I think they do. We have taken representatives of these lending institutions through one or two apartments in Washington and they were very much interested in them. I do not think a low-priced apartment house would deteriorate as rapidly as one that rents for $30 or $40 a room.

Mr. Luce. Well, I point out the fact your judgment is different.

Mr. Crawford. Would there be any objection to the law being amended so when application for the loan is approved title to the property could be approved also?

Mr. Abner H. Ferguson. You mean in the small house?

Mr. Crawford. The small house.

Mr. Abner H. Ferguson. I think, Mr. Crawford, that would make the thing extremely expensive to operate. We did set up in our regulations very definite title requirements and how the title shall be vested. Now that was put into those regulations after 5 days of conference with the officials of the American Title Association. Now the lending institutions know exactly what kind of title we want and know exactly how that title shall be vested.

Now, the point was made, and I think well made: "How do we know the Administrator in office 20 years from now when we foreclose this mortgage will not say to us, 'That is all right; McDonald was satisfied with it, but I am not'."?

Mr. Crawford. That is my question.

Mr. Abner H. Ferguson. We are amending the act by this bill to state that the title shall meet the requirements then in force.

Mr. Crawford. On page 16, section 207 of your bill, do you think that is broad enough, that subsection B, paragraph 1, do you think that is broad enough to insure college and university dormitories.

Mr. Abner H. Ferguson. Offhand I would say so. I would like to study it, however.

Mr. Crawford. If the committee decided to make it available for college dormitories?

Mr. Abner H. Ferguson. Yes.

Mr. Crawford. Referring to this difficulty you are up against by reason of high foreclosure cost in different States would it be at all practicable for you to increase premium rates just as the underwriter or large insurance companies increase their rates to take care of the hazard to be covered?

Mr. Abner H. Ferguson. Congressman, I think that is a little more fundamental. This is an insurance program and all insurance, as we know, is written for less than 100 percent of potential loss. In other words, the insured must take a part of the risk. Now if we were to permit the lending institution, and I do not say this in criticism of lending institutions, but if we were to permit the lending institutions to foreclose these properties turning them over to us in exchange of debentures covering what they cover now, and in addition fore-

closure costs, the financial institutions would be practically 100 percent insured and they would have no incentive to select sound loans to start with because they would take no risk. They would have no incentive to see that monthly payments are kept up because there would be no risk. I think that would be rather unsound.

Mr. CRAWFORD. On page 19 of the bill, lines 8 to 12 inclusive, do you think under this type of provision that that privilege granted to the Administrator is absolutely sound?

Mr. ABNER H. FERGUSON. Yes; I think that is sound. I think that is a good provision. That provision is the one which gives the Administrator the authority to consent to the release of a part of the property. That is intended to cover the construction of a group of houses, or 50 houses and then permit them to be sold off individually. We release each house from the mortgage and apply the amount involved to proceeds on the mortgage. That is universally done in blanket mortgages.

Mr. MCKEOUGH. Mr. Ferguson, I would like to go back to that discussion held between you and Mr. Luce of Massachusetts that developed the question in his mind as to the unattractiveness of these insured mortgages for lending institutions. I think the record ought to be somewhat amplified in connection with that discussion. It is my recollection when Mr. McDonald was testifying that you had already made some 250,000 commitments in the way of either actual insurance or commitments themselves, and that only 57 of them have gone into default?

Mr. MCDONALD. Yes; only 57 properties have been turned over to us with debentures issued or authorized.

Mr. MCKEOUGH. Included in that total number what loans were advanced by the Union Central Life Insurance Co., Cincinnati, the Prudential, and the New York Life? Have you had such mortgages taken over by those insurance companies?

Mr. MCDONALD. No; I do not think we are talking about the same thing. The 250,000 commitments are on small individual homes and of these only 57 have been turned over to us. The large loans made by the insurance companies were on the large-scale rental projects.

Mr. MCKEOUGH. They made the loans on your appraisals?

Mr. MCDONALD. Yes. There have been no defaults in those at all.

Mr. MCKEOUGH. The collapse of the real-estate market during the depression due to the conditions prevalent in the boom which ended about 1927, which were brought about primarily by greed and the desire of the underwriting syndicates, made up in the main by banks who made appraisals at exorbitant and outrageous heights so that they might sell to the unsuspecting patrons of their banks the so-called real-estate bonds bearing 6, 6¼ and 6½ percent interest.

Mr. MCDONALD. No question about it.

Mr. MCKEOUGH. And that is the answer.

Mr. MCDONALD. Yes, sir.

Mr. MCKEOUGH. So we should not become confused on that subject.

Mr. MCDONALD. There is no question about it.

Mr. MCKEOUGH. May I be pardoned just a moment to say that based on your record so far I think anybody who will reveiw your record freely and unbiasedly and without prejudice could say nothing but the highest in compliment of what you gentlemen have achieved in the most essential requirements of capital. I pay you that compliment.

Mr. MCDONALD. I thank you.

Mr. TRANSUE. Mr. Ferguson, why should not the national mortgage association extend loans to the small investor the same as the large?

Mr. ABNER H. FERGUSON. Simply because there are ample funds for the making of those loans by local institutions, and it is thought not wise for these associations to go into competition with these local institutions.

Mr. TRANSUE. Have you reason to believe on these 90 percent loans proposed that the private lending institutions will make loans on those mortgages all through the different sections of the United States?

Mr. ABNER H. FERGUSON. That only the future can tell.

Mr. TRANSUE. I know. You say only the future can tell?

Mr. ABNER H. FERGUSON. Yes.

Mr. TRANSUE. You can judge something by the history you have had with other loans.

Mr. ABNER H. FERGUSON. We had a terrible time convincing the lending institutions that an 80 percent loan was sound, and I think they have gradually come in until we have something like 10,000 lending institutions on our list.

Mr. TRANSUE. Now on a loan of say $3,000 which builds a modest home in some sections of the country, do the private lending institutions regard this kind of loan favorably?

Mr. ABNER H. FERGUSON. I think so.

Mr. TRANSUE. They do take them?

Mr. ABNER H. FERGUSON. Yes, sir.

Mr. TRANSUE. And take in an industrial section where the worker goes out from the center of population, perhaps on an acre or so, do you make loans on those kind of homes?

Mr. ABNER H. FERGUSON. Yes; we make loans on any properties that are primarily used for residential purposes. Of course there is a twilight zone there between our Administration and the Farm Credit Administration.

Mr. TRANSUE. I am talking about matters relating to homes. Take in the heavy industrialized section of the country where the homes are built near the factory, or the lots are not quite so large because the real estate man only gave a 35-foot lot to the house, does the F. H. A. insure loans made in those sections?

Mr. ABNER H. FERGUSON. That is a technical question entirely out of my province, but I do know we have certain standards with which property must comply before it can be insured as to utilities and schools and things of that sort, but I think those regulations are very liberal.

Mr. TRANSUE. You know in the State of Michigan there is one congressional district in which I have been informed not one loan has been made because of the industrial situation. The Congressman of that district so informed me. As you say, that is not your function.

Mr. PATMAN. May I ask one question, Mr. Chairman?

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Suppose this bill passes as is and there should be a demand for a billion dollars new construction and requests or applications are properly made and you believe they are all right, safe and

sound, and the loan should be made and the private investor will not buy these debentures, and you have a $50,000,000 capital stock and you have a demand for a billion dollars, are you going to furnish them money?

Mr. ABNER H. FERGUSON. Of course the whole theory is that private capital will lend a large part of the money.

Mr PATMAN Suppose capital will not?

Mr FERGUSON It will not succeed.

Mr PATMAN Could you provide that the R. F. C. buy the debentures?

Mr. ABNER H. FERGUSON. There is no such provision.

Mr. PATMAN. Would you be in favor of that?

Mr. ABNER H. FERGUSON. I would like to think about that before answering.

Mr. WOLCOTT. Mr. Chairman.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. What additional inducement is there in this bill for private vapital to invest?

Mr. ABNER H. FERGUSON. Well, one of the principal inducements to financial institutions is that it furnishes an immediate insured outlet for their mortgages in the event they get more than they ought to carry. That applies particularly to banks. They could sell them to a national mortgage association. In addition, the incentive under section 207 removes that obstacle. We are amending the act covering the assignments. That is the thing that has held a great many institutions out of that particular phase.

Now, of course, the fact the lending institution has got a secured mortgage here with the right to receive a Government guaranteed debenture is, I think, an additional inducement if those debentures are made tax exempt.

Mr. WOLCOTT. They are not tax exempt under the bill as it now stands?

Mr. ABNER H. FERGUSON. No; I am going to hand up to the committee drafts of an amendment providing that.

Mr. WOLCOTT. As I understand it the only limitation there is upon the authority of the National Mortgage Institution to loan on smaller units is laid down in the rules and regulations. I do not understand there is any limitation in the act except they must be 80 percent instead of 90 percent loans.

Mr. ABNER H. FERGUSON. That was a typographical error. We are going to suggest a change that will permit national mortgage associations to buy any insured mortgage and in addition any uninsured mortgage not in excess of 60 percent of the appraised value.

Mr. WOLCOTT. Then you will have to rewrite almost the entire section on page 32?

Mr. ABNER H. FERGUSON. No; on page 18, but we put in this:

> Except mortgages which are insured under title 2 of this act shall not exceed 60 percent.

It just involves the insertion of this.

Mr. WOLCOTT. Then you will have——

Mr. ABNER H. FERGUSON (interposing). The next page.

Mr. WOLCOTT. Then you will have changed the 80 percent to 60 percent?

Mr. ABNER H. FERGUSON. Yes.

Mr. MCGRANERY. How did you arrive at $6,000 as the limit on 90-percent loans?

Mr. ABNER H. FERGUSON. I did not fix it, but my understanding was it was fixed because there has to be an arbitrary figure and also because it was thought $6,000 and below was the field where there was the largest volume of housing needed, that the field above that did not have the need for new housing and did not to the same extent need the 90-percent provision.

Now let me explain, I do not want to take the time of the committee too long, but this provision is not to insure a mortgage on a $6,000 house. This provision is that we may insure mortgages up to $5,400, which may be 90 percent of the value of the property. That means that a man who has a $6,000 house can get 90 percent; if his house is worth $6,200 he can get about 87 percent and up to $6,500 he can get about 83 percent. It tapers off and applies to a less extent up to $6,800.

Mr. MCGRANERY. The fact remains a man with a $6,000 house can get a 90 percent mortgage?

Mr. ABNER H. FERGUSON. That is right.

Mr. MCGRANERY. Is there any reason for fixing it at $6,000?

Mr. ABNER H. FERGUSON. Just what I gave you is all. That is where we thought the principal need for houses and principal need for assistance existed.

Mr. MCGRANERY. Was there any question discussed about granting a mortgage up to 90 percent on houses above $6,000?

Mr. ABNER H. FERGUSON. I am frank to tell you I did not participate in any discussion on this bill.

Mr. MCGRANERY. Have you, Mr. McDonald?

Mr. MCDONALD. Yes. This bill was discussed by a business committee and they think that it will serve the majority of deserving people. It is very difficult to determine just where to begin.

Mr. MCGRANERY. What has been your experience, Mr. McDonald, with respect to the building of small homes in large cities, what is the average cost there?

Mr. MCDONALD. The cost has gone up a little bit in the last 10 months. Houses that cost $4,500 2 years ago probably cost a thousand dollars more now.

Mr. MCGRANERY. You cannot get very much of a house around New York, Philadelphia, or Chicago—you cannot build much of a house there for $6,000.

Mr. MCDONALD. I will ask Mr. Colean to tell you about that.

Mr. COLEAN (director of Large Scale Housing Division, Federal Housing Administration). In Philadelphia they are building a great many around $4,500 to $5,000. In the row-house type it is not that great.

We would like to have builders stay in that field.

Mr. MCDONALD. You would have to go out some distance.

Mr. MCGRANERY. What would be your reaction if this were increased from $6,000 to $7,500?

Mr. MCDONALD. Well, I think that $6,000 pretty well covers the field. Of course $7,500 gives you a little more complete house up North. You should bear this in mind. I figured out last night, you can build a house about $2,000 cheaper in the South, than in Phila-

delphia or New York, because there you have to provide for a basement deep enough so that the water pipes will be below the frost line to prevent freezing, and of course you have to have a heavier roof; so this gives the fellow in the South, south of the Mason-Dixon line, a better house than in the North, but we felt $6,000 would cover the great mass of people who could buy houses at figures commensurate with rent.

Mr. BARRY. I come from Queens County, Long Island. Between January and November of this year we had more building in Queens County than any other county or State.

Mr. McDONALD. The first 3 months you did.

Mr. BARRY. From January to November, I think 15,000 building permits were issued.

If this is to stimulate business I think you are not going to encourage it much if you do not give the people advantage of the 90-percent loan on the first six thousand, and if the loan were eight thousand give them advantage of the 90 percent on the six thousand, and 80 percent on the difference.

Mr. CRAWFORD. Has it been the practice of the Administration to advance a contractor construction loans?

Mr. McDONALD. We do not make construction loans.

Mr. CRAWFORD. You do not make construction loans to the contractor on say a 25-home project?

Mr. McDONALD. If you wanted to build 100 houses on a lot and you formed a limited dividend corporation we would insure the loan.

The CHAIRMAN. All right, gentlemen, let us have a moment's executive session before we go to the House.

(Whereupon, at 12:15 p. m. the committee went into executive session, following which the committee adjourned.)

AMENDMENTS TO NATIONAL HOUSING ACT

THURSDAY, DECEMBER 9, 1937

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs Steagall, Reilly, Hancock, Williams, Spence, Farley, Ford of California, Brown, Patman, McKeough, Evans, Transue, McGranery, Barry, Wolcott, Fish, Gifford, Luce, Crawford, Gamble.

(The committee had under consideration H. R. 8520, entitled "A bill to amend the National Housing Act, and for other purposes.")

The CHAIRMAN. The committee will please be in order.

Gentlemen, there was a suggestion that we should have the views of some of the banker with respect to the limitation as to interest rates carried in the bill. Upon the suggestion of Mr. Wolcott, we will hear as our first witness this morning Mr. Robert V. Fleming, president of the Riggs National Bank of Washington, recently president of the American Bankers Association. He is an experienced banker and one in a position to express the thought of the bankers of the country perhaps as well as any one we have heard.

Mr. Fleming, we shall now be glad to have you discuss the bill as you may see fit, particularly with reference to its practicability as affected by the provisions with regard to interest rates.

STATEMENT OF ROBERT V. FLEMING, PRESIDENT, RIGGS NATIONAL BANK, WASHINGTON, D. C.

Mr. FLEMING. Mr. Chairman and gentlemen, I am glad to appear before the committee. I have for a long time been interested in the development of the single mortgage and the elimination of the old method of financing, of the first and second trusts, with the hazards it brings to home ownership, and also the fact that under the provisions of title II of the National Housing Act, with a single mortgage there could be a better appraisal system, a better check on the appraisal, the valuations, and the cost involved in the old form of financing has been eliminated.

My own institution has made these loans since title II of the National Housing Act came into operation, and we have made about 2¼ million dollars of these loans, our average loan being about $7,700. I think that is a little higher than the average that the records of the Federal Housing Administration will indicate. I think it is a little higher. There have been some times that there have been temporary

delays, but in the main they worked out very satisfactorily, and in that group of loans we have not had a single default.

The CHAIRMAN. You have not had a single default?

Mr. FLEMING. Not a single default. The provisions of the amendment which are under consideration by your committee mainly are to effect elimination of the service charge which is now allowed of a half a percent, and changing the basis of the mutual insurance on the original balance to a percentage of the decreasing balance, with a reduction up to July 1, 1939, on what I might term the "small" mortgage, or on houses that do not have a value in excess of $6,000.

Nobody knows at the present time how, over a long period of years, the insurance which is paid in by the borrower is going to work out to protect the Government on its guaranty of the debenture, and of course naturally there is a reduction in that protection when we change the insurance downward or on the decreasing balances, because it at the present time figures three-quarters of 1 percent as against a half percent, which would be on the decreasing balances, and a quarter on the small loan up to July 1, '39.

That of course brings about a reduction so that the borrower on the new basis would have an over-all cost of about 5½ percent on the larger loans and 5¼ percent on the smaller loans—again, to July 1, 1939.

I believe that the amendments offered are desirable. I believe that when we get to a period where we are on the upswing again it may set the machinery to increasing the volume of home building, particularly in the lower-income groups, and frankly I think that is where the real importance of this measure lies, because I believe that the people who can afford a house that would stand a mortgage of a maximum of $16,000, down to, say, $8,000 or $10,000, and who have a desire for home ownership, have, in the main, already acquired a home during this period when we have had an upturn in business, prior to the break in the last 90 days; so that I think that these provisions mainly are for the benefit of the lower-income group, and that is where the volume of construction would take place if there can be an assurance of a continuity of employment by those people, because in the lower-income groups naturally there is not the certainty as to duration of employment, and without certainty of position, of income, there is not likely to be a desire for home ownership.

I believe there is another factor which I am sure this committee is acquainted with, with respect to these interest rates. This type of loan, while I think it desirable for banking institutions in safe amounts and within limits of the provisions of the Banking Act, and according to the classification and the character of each bank's deposits—and I mean by that if a bank has a lot of accounts of other banks which might be withdrawn through any sudden change of the deposit structure, obviously that bank should not go as far as a bank with deposits that are more stable, and of course, as you know, you are limited to 60 percent of time deposits so far as member banks are concerned.

This type of loan is quite different in its cost of servicing than a pure commercial loan, even an individual loan, or a collateral loan. To begin with, in many cases the individual who wants a Federal housing loan is not a customer of the bank, or, if so, he has never applied for credit before, and, to begin with, you have to make a pretty thorough credit examination. Then of course there is the interview with them, which takes a good deal longer time than does an agreement on a commercial loan or on a collateral loan. In addition to that, you must make your settlement, usually through a title company. That means drafting intructions to the title company, figuring out the schedule, and advising the borrower as to what that schedule may be. Now after all that is done you come down to these monthly payments which require a good deal of accounting in your own institution, because of the required segregation of the various items included in the payment. For instance, the principal payment must be separated from the interest payment; the insurance must be separated and credited to an account which is paid over monthly to the Federal Housing Administration. Taxes must be separated, and also fire and windstorm insurance must be paid. In addition to that, where there has been a change in the tax rate, or where there has been a change in th valuation of the property, there must be a readjustment of the schedule, and again readjustment of your books, as well as advices to your borrowers so that they in turn may make their payments accordingly.

All of that brings about a greater expense in the operation than in the other types of loan, and therefore I advocate caution, Mr. Chairman, knowing as I do that side of the picture, lest this program be deterred, by trying to get that interest too low. I think the rates proposed in the amendments are all right. There is a reduction. There may be some little resistance at the start, but if the demand starts, then I believe that the flow of funds into mortgages would continue, but if you cut that rate too low, with all these other costs, frankly it will not be attractive for banking institutions, and that is particularly true of the smaller institutions, to enter into it throughout the country, because of course they haven't the volume of deposits, and their overhead runs proportionately higher than is the case where there is a large volume of business.

I think that on the small mortgage a good safeguard is thrown around it by having it pertain only to new construction, where the property must be appraised and examined, or the specified examination made by the Federal Housing Administration, prior to the commitment for insurance, or before it is erected, which gives the F. H. A., as well as the bank, the opportunity to see whether the costs are right before the loan is made.

I failed to mention, when I was describing the costs of the loan, that of course most institutions that handle any volume of this business also have to make, and do make, their own appraisals, which is no reflection on the Federal Housing Administration but is a desirable thing for any sound institution to do. It is doubly checked. That of course again adds to the expenses and time of taking and making this type of mortgage.

I think the provision allowing for mortgages not to exceed $1,000 a room, up to $200,000 in groups, is a good provision. It will allow an operative builder to more easily obtain construction money for the development, if there is a demand for that type of home.

I think, Mr. Chairman, in general terms that about covers the matter with respect to the individual mortgage and the rates. You of course have under these amendments provisions for national mort-

gage associations, which of course under title III were never able to work. One of the reasons, of course, was the fact that until the reserve funds that are built up by the mutual insurance are tested out over a period of years, it is very unlikely anybody would put capital into a mutual mortgage association, until they could see how that would work out.

Changing this to a revolving fund of $2,000,000,000, where the Federal Housing Administration can insure up to that amount, certainly helps to open the door on that point, and with the provisions for the R. F. C. to assist, I think that they may start; of course, they will only start if there is sufficient margin, where there is a need, and where sufficient mortgages can be obtained in volume, whereby a mortgage association can obtain them and issue and sell their debentures serially.

Mr. HANCOCK. Mr. Fleming, do you think it is sound business policy for the Government to continue to insure or guarantee existing mortgage debts? How can that operation stimulate housing or accomplish the announced purposes of this bill?

Mr. FLEMING. I think of course that the Government's insurance is a contingent liability. If the reserve funds are built up by insurance, according to an actuarial basis, unless we get into a very big slump or "tail spin," the Government liability is not liable to be very great. I do think that under the smaller mortgage provided for in this amendment, the Government may be making somewhat a subsidy there, and maybe a justifiable subsidy.

Mr. HANCOCK. My question was directed to the insurance of existing mortgage debts rather than loans covering new construction.

Mr. FLEMING. Oh, existing? Well, this bill, at least these amendments here, practically cut out the older properties, as I understand it, to a great extent.

Mr. HANCOCK. Do you think that ought to be done?

Mr. FLEMING. I think that is all right under the provisions of this bill here, because I think the property can only be insured after February 1934. There was practically no new construction between 1929 and up through that period, so that most of the old properties are out.

Mr. HANCOCK. You are familiar with the whole set-up of the national mortgage associations, are you not?

Mr. FLEMING. Yes, sir; fairly so. Of course, we have never had one operating.

Mr. HANCOCK. Would your bank be likely to invest in the debentures of a national mortgage association as proposed under this bill, and, if so, upon what conditions?

Mr. FLEMING. I think we would invest in those; yes. I think that would depend entirely upon the rate and maturity. Of course, those associations have got to live by their ability to earn enough between what they get on the mortgage and their expense of operation, and what they can sell the debentures for.

Mr. HANCOCK. I am seeking information for the record. Why would a banking institution prefer to invest its funds in the debentures of the national mortgage associations whose debentures were taxable and not guaranteed by the Government when it can invest in an insured mortgage which upon default is redeemable with a Government-guaranteed debenture?

Mr. FLEMING. Well, of course, they would have practically the same thing back of the debenture of the mutual mortgage association. The difference would be that if they would issue them, as I assume they would, with, say, maturities of a year, or maturities of, say, 2 years, or maybe 3 years, and the rate were sufficiently attractive, it would constitute a good investment and be just as safe as the mortgage itself, while the expense incident to making the mortgage, as I have described it here, would not be involved.

Mr. HANCOCK. Is it your understanding from the language of the bill as now drafted that the national mortgage associations could be organized and started without any actual cash capital?

Mr. FLEMING. No; it could not. Do you mean private capital?

Mr. HANCOCK. Any cash capital.

Mr. FLEMING. No; it is not my understanding. Maybe I am wrong in my interpretation of the bill.

Mr. HANCOCK. I may be wrong myself.

Mr. FLEMING. I do not think they can start without a specified capital.

Mr. HANCOCK. But from my consideration of the language of the bill I feel reasonably certain that they could start with $500,000 in any kind of first mortgage. Should that be permitted?

Mr. FLEMING. No, no; I do not think so. I think that is wrong, because they would have to have operating capital. Obviously they would have to have operating capital.

Mr. SPENCE. Twenty-five percent.

Mr. HANCOCK. I think I have just one other question: From your concept of the practical workings of this new program, what effect do you think it would have upon the present trustee or private thrift institutions? Do you think it would be helpful or harmful to them? Will you also give your reasons for your answer?

Mr. FLEMING. I do not quite understand what you mean by "trustee institutions."

Mr. HANCOCK. I mean the cooperatives, the homestead, Federal savings, State chartered building and loan associations and savings banks.

Mr. FLEMING. There is nothing to prohibit building and loan associations and other associations that are under either Federal or State supervision from acting as insured mortgagors. They can enter into it if they want to. It is just a question whether the rate may not be attractive enough for them, in comparison to what they may pay for their deposits.

Mr. HANCOCK. But they have to pay a return on their total assets, practically their total assets, do they not?

Mr. FLEMING. That is right.

Mr. HANCOCK. You do not think it would be wise to permit the National Mortgage Association to make loans or advances on small individual home units, do you?

Mr. FLEMING. It is my understanding of these mortgage associations—maybe my conception is wrong—that they do not make the mortgages themselves, they buy the mortgages from others who have made them.

Mr. HANCOCK. Under the language of the bill, if you will read it very carefully, we authorize them not only to buy, service, and sell, but to make loans and advances. But my understanding is that that

right or function will apply only to the large projects, and I was wondering whether you do not agree that that is the way it ought to be. I am also dubious as to the wisdom of allowing them to buy and sell small mortgages.

Mr. FLEMING. In the small homes, I do not think there is any need for that, but I think possibly in the larger operations which might constitute low-cost housing, or where they are limited-dividend corporations, probably that might be desirable, because that is the type of loan that would hardly be made by a bank or other such type of lending institution.

Mr. FISH. Mr. Fleming, you were formerly president of the American Bankers Association?

Mr. FLEMING. That is right, sir.

Mr. FISH. And you know the financial situation of the people of this country. Do you think under the provisions of this bill that the home owners are prepared now to put up their money in small amounts to start building?

Mr. FLEMING. No, sir; I do not, right now.

Mr. FISH. Do you think that these proposed home owners—and of course that is the idea of the bill, to stimulate employment in heavy industry and home owning—do you think that these home owners or proposed home owners can afford to pay 5-percent interest in the present situation in which they find themselves?

Mr. FLEMING. I do not think the interest cost is the controlling factor. Maybe you were not in the room, sir, at the time I was describing this.

Mr. FISH. Then do not repeat it if you have described it to the rest of the committee. I will have to wait.

Mr. FLEMING. I was describing the difference in cost of handling this type of loan.

Mr. FISH. Then I will follow it up with another question. You have already stated that, and it is not fair to the other members of the committee for me to ask you to repeat it, but I want to say for the sake of the committee, I hope the members of the committee will limit their questions at least to 5 or 10 minutes' time so that everybody will get an opportunity. In order to get a lower rate of interest, would you have any objections to these debentures being tax-exempt?

Mr. FLEMING. This resolves itself into two considerations. If you take a big broad national picture, if we exempt everything from taxation then your taxation has got to be directed to the top, that may throttle the flow of capital. On the other hand, obviously if these debentures are free of taxation—and my understanding is they are only to be free of State and local taxation, but subject to Federal taxation—obviously any relief in the taxation on that obligation would allow the mortgage association to sell it at a lower rate, and possibly a greater flow of money would go into them.

Mr. FISH. Yes; and that would bring a lower rate of interest to the home owner, if it were tax-exempt?

Mr. FLEMING. I do not think so, because the mortgage association is not lending the money excepting in the case of these large projects, these low-cost housing projects. The money is being lent by other institutions, and the mortgage interest is taxable in the hands of the original lender.

Mr. FISH. Of course, you understand, I know you favor the bill, and I suppose every member of the committee does——

Mr. FLEMING (interposing). Well, I do not know about that.

Mr. FISH (continuing). But the bill does not amount to anything unless we get the building; and how can we have building unless we do something to reduce the rate of interest? We cannot control taxes, which are excessive. We cannot control to any degree the cost of building material or of labor.

Mr. FLEMING. Well, I am not sure.

Mr. FISH. And why is the man today with very little money left going to go in and subject himself to a high rate of interest, to heavy taxes, and to high costs of building?

Mr. FLEMING. Of course, these provisions, to my mind, are mainly helpful to the people in the lower income brackets. If this bill were passed tomorrow I do not believe it would immediately create a resumption of building, by those in the lower-income brackets. I believe that must await an upturn in business, when there is more assurance of continued employment.

Mr. FISH. That is what I want to say. It is my contention that this is not a way out of this depression at all.

Mr. FLEMING. But I think it is good to have the mechanics of this thing ready so that if we can get an upturn, then it will stimulate a flow of funds and the desire for home ownership.

Mr. FISH. Exactly. In other words, this is a "false alarm," as a way out of the depression?

Mr. FLEMING. Well——

Mr. FISH (continuing). That is, the legislation is sound and it will work out in the future when people have money to spend and can afford a home?

Mr. FLEMING. Yes; I think it is desirable to have the amendments. I think it is desirable to have the amendments, but I do not believe that it immediately would start people buying homes or create the desire for home ownership, because that has got to come when there is a greater assurance of their positions, their jobs.

Mr. FISH. I am quite sure, because I got a notice today from one of my five cities in my home district—and I suppose my district is as well off as most districts—that they had gone bankrupt and that they could not afford to carry on the police force, the garbage and ash force, and so on, and that the services had stopped. If that exists in my district, I do not know what there is to become of the rest of the country, and I do not see how people are going to get by at the present time.

Mr. FLEMING. Mr. Fish, there is no question in the world but that you have got to find some way of meeting that requirement, in order to make this successful. I do not know how it can be done, but certainly the costs of construction of the small house, for the material, has got to be brought down so that you can get that house at such a price that the individual who buys it can pay for it for substantially the same as rent, maybe a little more, but there has got to be that desire, otherwise he will rent.

Mr. FISH. You have no objection, have you, to these debentures being tax-exempt?

Mr. FLEMING. That is a pretty hard question to answer. It is broad. As I have stated, there is a broad national question there

that you gentlemen who are considering all angles may be more familiar with than I am. If we exempt every object from taxation, then I am sure that you are going to throttle business, because then the taxation will all have to be there, and in my judgment that is the retarding influence now.

Mr. FISH. Of course, you would not know it, but I have been opposing tax-exempt securities for several years. It may not be known to you.

Mr. FLEMING. No.

Mr. FISH. I have lifted up my feeble voice against it, but it seems to me it is the effort of this legislation to produce home owners and to get people back to work. To get laborers back to work and to get home owners I might possibly waive my objection as to these debentures.

Mr. FLEMING. Of course, I have got to say this—I have already stated it, I think—that if the debenture issued by the mortgage association is entirely tax-exempt it is more attractive for sale purposes and the volume of money flowing to it would be greater, its attractiveness may be greater. Now, that has got to be weighed against the bigger, broader question of taxation of the whole country.

Mr. FISH. That is all, Mr. Chairman.

Mr. LUCE. Mr. Fleming, when this housing program began it was the opinion of this committee that it should be restricted to low-cost homes. This bill has been represented to the public as a bill for low-cost housing for people of small means. It is now proposed to extend its benefits to apartment houses, to enable the public financing of large structures. Does your observation of the building of large apartment houses in Washington lead you to believe that that is a prudent activity on the part of the Government?

Mr. FLEMING. There is, of course, more danger attendant upon that type of building operation in the long run than in the individual home. Around these parts we have had, of course, times when there was a shortage of apartments, we have had times when there was quite an overage of apartments, and where it was very difficult for the owners to be able to sustain the mortgage servicing. Right now we are in a position where it is estimated we have about 8 percent vacancy, with the units under construction, by the middle of February or March, so that we are more than caught up. Now, if we should have a drop in population, of course there would be a greater hazard in the ownership of that property.

Mr. LUCE. There being a greater hazard, may I assume that the result is that banks like yours hesitate to invest in it?

Mr. FLEMING. I do not think the larger provisions, the provisions for these apartments or low-cost housing, are something that banking institutions are interested in.

Mr. LUCE. I am speaking of the large apartment houses.

Mr. FLEMING. I do not believe that they would make the mortgages on that type of property.

Mr. LUCE. Should the Government take the funds of the Government to do things that private institutions will not do?

Mr. FLEMING. I think there are other types of institutions that do, Mr. Luce. I think insurance companies and other types of institutions do handle those larger properties where they are not subject to the fluctuations of deposits that the banking institution is subject to. Most banking institutions prefer in their mortgage lendings to deal with individual home owners rather than to make mortgages on apartments.

Mr. LUCE. That being the case in regard to the larger institutions, what occasion is there for the Government to compete with them in the larger instances?

Mr. FLEMING. Only to assist in this low-cost housing, where people with very low incomes might be able to obtain adequate quarters with modern conveniences at a comparatively low cost. That is the only reason for it.

Mr. LUCE. The initiative has already been taken by the Government in that direction?

Mr. FLEMING. I think it does parallel it somewhat; yes.

Mr. LUCE. And if these institutions can lend the money, why should we lend the money?

Mr. FLEMING. Of course, the Government does not loan the money.

Mr. LUCE. No; but I am talking in general terms.

Mr. FLEMING. There is a contingent liability of course on the part of the Government.

Mr. LUCE. Yes.

Mr. FLEMING. And on that point of course I am sure you know, Mr. Luce, there has been a good deal of misconception about the National Housing Act in the minds of many people, who feel that the Government is loaning the money, but the Government is not loaning the money. It has a contingent liability of course in the guaranteeing of the debentures to be issued, in the case of foreclosure of the mortgage.

Mr. LUCE. I used by expression only in the most general way.

Mr. FLEMING. Yes. I only mentioned that because it is so generally misunderstood.

Mr. LUCE. We are entering upon the field of finance in connection with big construction, and I am skeptical about the wisdom of doing it. That is what I am driving at.

Mr. FLEMING. Of course there is a greater hazard in that than there is in the individual homes, in my judgment.

Mr. LUCE. And now may I make quite sure that in your judgment the large institutions, such as the life-insurance companies, are already attending to that type of financing?

Mr. FLEMING. They are handling a great deal of that. Of course, this provision here allows them to be erected without the same percentage of equity in the property. That might stimulate the erection of these low-cost housing projects. Life-insurance companies would not go up to 80 percent—they could not because of the various laws.

Mr. LUCE. You may infer that I strongly oppose the Government's going into that field.

Mr. FLEMING. Certainly.

Mr. GIFFORD. I understand, Mr. Fleming, you do approve the measure?

Mr. FLEMING. I do, sir.

Mr. GIFFORD. And that you have already about $2,000,000——

Mr. FLEMING (interposing). About. A little over $2,000,000, I think.

Mr. GIFFORD. Invested in this type of assured mortgages?

Mr. FLEMING. That is right.

Mr. GIFFORD. Would you mind telling me how much you have invested in other types of mortages on properties?

Mr. FLEMING. About $2,000,000. Well, just about 50-50—about $2,300,000 or $2,400,000, in other types.

Mr. GIFFORD. My question is leading up to something I am interested in. It may not exactly apply here, but I think practically it will. Of your entire assets, how much may be invested—because this is public; I have seen it——

Mr. FLEMING. That is right.

Mr. GIFFORD (continuing). How much is invested in Governments?

Mr. FLEMING. About $40,000,000.

Mr. GIFFORD. About $40,000,000. What is the proportion?

Mr. FLEMING. Our deposits are running now about $95,000,000, and we have about $40,000,000 in Governments, of course graded as to short maturities and coming along down through about 1948, I think.

Mr. GIFFORD. That means Government guaranteed loans?

Mr. FLEMING. That is direct and indirect, yes, sir; the larger proportion, of direct obligations, of course.

Mr. GIFFORD. That is a smaller proportion than you held perhaps a year or two ago?

Mr. FLEMING. No, sir.

Mr. GIFFORD. It is a larger one?

Mr. FLEMING. It is about $3,000,000 larger.

Mr. GIFFORD. What I am getting at is how much of those assets are in the channels of industry, to help pull industry out, and whether it is too much to hold of the Governments'—where it ought to be.

Mr. FLEMING. Our total loans at the present time are, about $22,-500,000.

Mr. GIFFORD. On industry?

Mr. FLEMING. All loans. That would include all these mortgages, commercial loans, personal individual loans, and collateral loans.

Mr. GIFFORD. As a banker, I am interested to know how you view your duty toward industry as compared to Government.

Mr. FLEMING. We would much prefer to have more commercial loans, and we do everything in our power to endeavor to stimulate and to assist in making commercial loans, loans that will help industry. For instance it is our policy definitely, if a proposal comes to us in unbankable form, everyone of our officers is instructed to examine the proposition and see if we can make suggestions to make it bankable, to endeavor to be of help and assistance. Of course, you must recognize that the city of Washington is not an industrial center.

Mr. GIFFORD. I was going to ask you that question. Where do your deposits come from—Government or from private?

Mr. FLEMING. No; we have practically no Government deposits. Our deposits are made up of about $17,000,000, a little less than $17,000,000 of savings, and the balance is from individuals, firms, and corporations. We have quite a few national accounts. We have quite a large proportion of the accounts of merchants and individuals who live here.

Mr. GIFFORD. Mr. Fleming, I might explain to you, I have been trying to get from you these things. I have followed the assets of your bank for some years. I have its reports. I am interested in the proportional division of investments, and I have felt that they leaned very heavily toward Government and Government-guaranteed, and that perhaps you favored dealing in Government and Government-guaranteed investements. I may recognize how difficult it may be for you to get a commercial loan in this particular city, but I am very watchful of the banker's willingness to invest in good United States business securities.

Mr. FLEMING. If you had had the opportunity or had observed my addresses when I was president of the American Bankers Association, I think you would pretty well know the attitude of my institution, from those addresses. We endeavor in every way possible to stimulate business, and I urged in every way possible the banks of this country to try in every way in the world to make loans bankable. I said that repeatedly.

Mr. GIFFORD. Yes; but, Mr. Fleming, do not tell this committee—I hope you will not try to—that when the Government assures a mortgage, that that is a private lending proposition, even though private money is employed.

Mr. FLEMING. I do not quite understand that question, sir.

Mr. GIFFORD. You just answered Congressman Luce by saying we must keep in mind it is private capital that is doing this, the Government simply insures it.

Mr. FLEMING. That is correct, is it not?

Mr. GIFFORD. That is correct; that, as compared to obligations that the Government guarantees in an altogether different manner. The final point I am going to make with you—and I am going to make it this minute, as we have another witness—is this: I represent cooperative banks and building and loan associations that have got to compete with this, having in mind lately Federal savings and the loan institutions which we set up, to be helpful, where there were no banking facilities, but now, where there are plenty of banking facilities, and are obviously "going Federal" as they say——

Mr. FLEMING (interposing). I quite agree with you.

Mr. GIFFORD. (Continuing). And bedeviling our other institutions, or carrying on this bedeviling to a still greater degree.

Mr. FLEMING. I agree with you on your statement with respect to the Federal building and loan associations, that they ought not to be created except in such areas where there is no such facility.

Mr. GIFFORD. Yes; but they are, are they not?

Mr. FLEMING. I am afraid that is true. We do not have that competition here, but I have learned that throughout the West and many other States there is a good deal of complaint about the competition.

Mr. GIFFORD. Mr. Fleming, all of these things that we are doing are simply plunging the Government into a guarantee, and simply putting in the background practically and finally obliterating those private lending agencies?

Mr. FLEMING. Of course these mortgages here provide for an insurance fund. There has not been sufficient time to see whether the fund will be adequate or not, if we run into a severe depression of values and people are unable to retain their homes. That, the future has got to tell. However, I have felt that this program of the National Housing Act, and I felt so at the start, had many good factors in it. When I was appointed a member of the banking industrial committees that we had about 1932—I was on the fifth district committee—

I had a good deal of opportunity to observe the hazard of ownership under the old first- and second-trust method.

Mr. GIFFORD. Yes; do not let us go into that. I do not want to argue that.

Mr. FLEMING. I know, sir; but to make my point clear to you, that is one of the reasons that I favored the single mortgage and the larger percentage of loans.

Mr. GIFFORD. I understand that; but I will ask one more question and I will have finished. Will it not be human nature on the part of even you as a banker in the future to sort of recover an aptitude for a mortgage and get it insured before you make it? Do you not wish the $2,000,000 you have already were in other kinds of mortgages that were insured?

Mr. FLEMING. No.

Mr. GIFFORD. Would there not be that tendency?

Mr. FLEMING. No; we would not have made them if they had not been satisfactory. Those other mortgages are, under the policy of the bank, made either for 50 percent valuation without amortization, or 60 percent, where there is a 40-percent amortization, over a period of 10 years, and in most instances more.

Mr. GIFFORD. You agree with me that we are jeopardizing the work and the very existence of our private lending agencies, such as cooperative banks and building and loan associations, by these constant guarantees by the Government?

Mr. FLEMING. No; I cannot agree with you on that. I say that because I think that has done a great deal of good. I think there have been many people that have become home owners through the provosions of the National Housing Act that otherwise would still be renters, and I think the more people we can get to be home owners in this country the sounder basis this country is on, and I do not believe they could have come to be home owners unless there had been a provision where there could be a full mortgage. Then it was necessary that there be a guaranteed form of debenture, in order to create the flow of money into it, if you are going to loan that high.

Mr. WOLCOTT. I must take the responsibility for suggesting that you come down here, Mr. Fleming, to give us the attitude of the banks toward this bill. What we were fearful about was that, increasing the obligation at the same time that we decreased the rate of interest, we might make this class of investments less attractive to the banks, and realizing that we were wholly dependent upon the loaning institutions for the success of any housing plan, we thought we might go to the source and find out what your attitude would be toward it. Now I understand your attitude to be that you cannot see any harm in the bill. I think it would be the quickest way, even at the expense of reiteration, if you will tell us if there will be any additional inducement on the part of banks to make loans, if this bill is passed.

Mr. FLEMING. No; you are correct in the last question, sir, that I do not believe it is an additional inducement. I believe if a demand for housing is created in an upturn that then even though there might be a temporary hesitancy, that the lending will continue. I do advise caution in dealing with the interest rate. I tried to explain the rather heavy costs involved in handling this type of loan.

Mr. WOLCOTT. If I may inject a thought there, you advise caution on that interest rate because you think we are approaching perhaps a twilight zone?

Mr. FLEMING. That is right.

Mr. WOLCOTT. In which we would possibly dry up this credit that is furnished by the loaning institutions for this purpose, the purpose of the act?

Mr. FLEMING. I think there is danger in doing that. I think your main resistance to the building program, once you start an upturn, will be in the costs of construction rather than this rate of interest.

Mr. WOLCOTT. Under the present act, if there is an upturn of business with an attending desire on the part of people to own their homes, is there anything in this bill which would accelerate home construction? I mean in addition to what we have already set up.

Mr. FLEMING. Yes; the provision for the loan up to $5,400 on property not to exceed $6,000, where the loan may be made at 90 percent, to the home owner.

Mr. WOLCOTT. Would you say we are still approaching this twilight zone in that respect, and if there is an upturn in business there is likewise an additional field of investment by banks which is not existent today in other fields?

Mr. FLEMING. In my judgment, as I stated some little time ago, I do not believe that if this act were passed tomorrow it would immediately start a resumption of building or of desire for home ownership. I think that has got to wait; but in answer to your question as to whether there is any provision in here that would be a betterment from the standpoint of a home owner—and I believe it is mainly in the lower-income groups that you have got to find your field here——

Mr. WOLCOTT (interposing): I was not speaking particularly with reference to betterment to the home owner. I realize of course the home builder is going to benefit by having to pay in only 10 percent, although there is some question but that the increase in the monthly amortization costs will not offset that in that manner, but that I want to be careful about in this act is that in our zeal to benefit the home constructor we do not dry up——

Mr. FLEMING (interposing). The flow of money.

Mr. WOLCOTT (continuing). The source of credit which makes it possible for him to build.

Mr. FLEMING. That is right. Well there is on the larger loans really only three-quarters of a percent difference between what you can do now and what this bill would provide. One costs six and a quarter, and the other costs five and a half.

Mr. WOLCOTT. I do not assume that you as a banker—and you probably can speak for a large number of the banks in the application of this act—are in favor of setting up any Federally controlled and chartered association which is going to come into direct competition with the banks in this field.

Mr. FLEMING. No, no.

Mr. WOLCOTT. As I understand this bill we give such encouragement to the creation of such institutions, that unless there is some restriction placed upon the operation of the national mortgage associations, an association might be organized in New York or Washington or anywhere else for that matter, which might come into direct competition

with other banks all over the United States, even in very small communities.

Mr. FLEMING. Not if they are limited, as I understand, to the large apartment projects, because I do not think the banking institutions are entering into that, anyway.

Mr. WOLCOTT. As the bill is at present drawn there is no restriction, and we have had a suggestion made here that it might be advisable to amend it to make it apply only to multiple unit dwellings, and then only to 60 percent of the assessed valuation, which of course will take it out of the competitive field.

Mr. FLEMING. Yes. Maybe I am in error in my understanding. My understanding is that it was to be that.

Mr. WOLCOTT. No; at the present time the bill provides for the creation of a national mortgage association, which will invest in the same kind of paper and do the same things that you as a banker might do in this locality.

Mr. FLEMING. I think that would be a mistake, but I do think they could be an aid in the other low-cost housing projects, because the only people they compete with there are insurance companies, and insurance companies won't loan and can't loan under the law to exceed a certain percentage.

Mr. WOLCOTT. I can see an advantage to the banks, of the national loan association, that it creates another agency through whom you may sell your paper.

Mr. FLEMING. That is right.

Mr. WOLCOTT. But is it not a possibility that that advantage might be completely offset by the fact that the mortgage association might come into Washington or might go into Port Huron, Mich., or San Francisco, and compete directly with the loaning institutions in those localities?

Mr. FLEMING. I do not think that the national mortgage association would be of any interest to an institution like my own, as a place to sell those mortgages. I think it is to the smaller institutions which may not have as large deposits and would need an outlet in order to keep servicing their community.

Mr. WOLCOTT. I have been very much concerned about this bill. I have gone along here with every housing bill we have passed, thinking that we were passing the bills for the purpose of encouraging employment in the building trades and to remove a housing shortage which I think is apparent in the United States. In the first place I do not want to dry up this credit which you men, the bankers, are offering at the present time.

In the next place I am very strongly opposed to Government competition in private enterprise, whether it is banking or growing sugar beets, and I have convinced myself—and I wish you would follow me on this—that this bill is designed with this objective, that if, because of the increase in the obligation and the reduction in the interest rate this class of loan is no longer attractive to banks, that to assure that there will not be a drying up of credit, we create a national mortgage association to take over your activity in that respect. I think I am correct in my analysis of it, and I do not believe that you and I—I cannot speak for you, but I know, myself, I am very strongly opposed to the Government competing with private enterprise.

Mr. FLEMING. So am I.

Mr. WOLCOTT. I do not want to take the chance that by passing this bill we destroy all the good we have accomplished already.

Mr. FLEMING. I thoroughly agree with the principles you state, sir. I had not taken that view of it, and maybe it was due to the misconception with respect to these mortgage associations, and their ability to lend on small homes. I think that there is a retarding influence in the reduction of the rate. I do not think that is a controlling factor. I think your construction costs and those things are more your controlling factor than this drop of maybe three-quarters of 1 percent in the interest. I do not think that retards. I do think that in the low-income groups it is pretty difficult for those low-income groups to be able to pay $1,200 to $1,500 cash down on the purchase of a house, and I do think that helps there.

Mr. WOLCOTT. That is a very desirable thing, if the banks will continue to make the loans under that set-up.

Mr. FLEMING. Yes; I think there might be in the change of rates some retarding influence, but I think if the volume started they would take care of it.

Mr. WOLCOTT. If the increase or the decrease in the rate of interest, and the increase in the amount of the obligation, are a retarding influence, is not that the antithesis of what you understand to be the purpose, and what I understand our purpose to be in this legislation?

Mr. FLEMING. Yes. I have already said I advise caution on that point, and I do not believe that difference in rate—now, it sounds very well to say that we want to loan these people at the lowest rate possible; I mean a very low rate, maybe 3 percent or maybe 3½; all of us would like to do that, but there are certain overhead costs in handling this type of loans that just cannot be met with that sort of rate, it just cannot be done—as I have described earlier in my testimony, the difference between the costs of lending.

Mr. WOLCOTT. You have got to have a certain spread between what you would receive on this class of mortgage and what you can buy Government bonds for.

Mr. FLEMING. Oh, yes; absolutely, sir.

Mr. WOLCOTT. In order to make this attractive, because of the additional——

Mr. FLEMING (interposing). Accounting costs.

Mr. WOLCOTT (continuing). Yes; and the additional chance which you take.

Mr. FLEMING. Yes. I would rather—and this is not from the standpoint of not wanting to help the little fellow, because I am anxious to help the little fellow, but I do believe that you do remove a good deal of the urge when you cut this down to the cost of five and a quarter gross. The bank on that loan is going to get probably somewhere near 4 percent net, before his other general overhead; he is going to get somewhere around possibly 4 percent, and from that then his other general overhead, other than the direct cost, and his taxes, Federal and State, will have to come off of that, so there is a danger of a retarding influence there, there is no question about it.

I wish we would look at the law again. One of the gentlemen, Mr. Chairman, asked me about these. I think you did, Mr. Wolcott—about these mortgage associations loaning directly on small homes.

Mr. WILLIAMS. That is not in the law, positively.

Mr. FLEMING. My understanding was different, but I didn't want to be too positive on that point.

Mr. WOLCOTT. Just a minute—it is in the law, provided the home owner puts up 20 percent, even though the amount is less than $6,000.

A VOICE. May I correct that misapprehension?

Mr. WILLIAMS. I think not. I do not agree with that, either.

The CHAIRMAN. That is a technical matter that can be discussed later.

Mr. FLEMING. I do not want to pose as an expert——

The CHAIRMAN (interposing). It can be amended either way. We have been having only a discussion of the provisions of the bill.

Mr. FLEMING. It was not my understanding.

Mr. WOLCOTT. If there is any question about it I would like to clear it up. There was some discussion here about it yesterday.

Mr. GIFFORD. While Mr. Wolcott is looking that up I want to make this suggestion to Mr. Fleming. His argument is so many times presented, that the construction costs represent the great drawback in this program.

Mr. FLEMING. I said that that was greater than the question of interest, probably.

Mr. GIFFORD. Yes. I want to remind him that the carpenter and the painter would look at the home buyer and say, "No matter what we charge you, you can get 90 percent just the same."

Mr. CRAWFORD. Mr. Fleming, there has been so much thought given here to this idea of making tax-exempt these debentures, I want to make sure that I understood you. Did I hear you say that in your opinion, if the debentures were made tax-exempt, the financial benefit of that tax exemption would flow down to the man who borrows money to build a home?

Mr. FLEMING. I do not think it will; no; because in one case there is direct lending to the borrower, and in the other case it is a question of volume spread between what the mortgage pays to the mortgage association and what they can sell the debenture for. Now, of course, if the debenture is tax-free that debenture is going to be more acceptable so far as salability is concerned, more money might be available in the turnover, but I do not think it is going to have any material effect upon the borrower. I may be wrong in that, but that is my opinion.

Mr. CRAWFORD. We would be on the wrong track then if we made them tax-exempt, and spread the news that we were doing it to help the man to build a home?

Mr. FLEMING. There is only one thing you have got to do there: You have got to be sure that the mortgage association is going to have a sufficient spread between what he can sell his debenture for and what his mortgage pays, to pay his interest and return on capital investment.

Mr. WOLCOTT. I have found this on page 32 of the bill as amended, section 301. Now, the bill says [reading]:

> The administrator is further authorized and empowered to provide for the establishment of national mortgage associations as hereinafter provided which shall be authorized, subject to rules and regulations to be prescribed by the administrator, (1) to purchase, service, and sell first mortgages and such other first liens as are commonly given to secure advances on real estate held in fee simple or under a lease for not less than 99 years, under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby, such mortgages not to exceed 80 per centum of the appraised value of the property as of the date the mortgage is purchased.

The only limitation I see in that paragraph upon the national mortgage association's investment as a banker investing in this paper is that it must be subject to the rules and regulations to be prescribed by the administrator.

Mr. SPENCE. You did not read all of it. It says "under section 207."

Mr. WOLCOTT. I know that, but up to this point the only limitation there is upon the national mortgage association to invest in low-cost housing is the rules and regulations of the administrator, together with the fact that among other things it cannot be over 80 percent of the assessed valuation. Then this bill goes on to say—

> *and* to make loans and advances upon, *and* to purchase, service, and sell mortgages or partial interests therein which are insured under section 207 of this act.

Now, I contend that language, if we want to confine it to section 207 of the Act, should read, going back to where it says—

> not to exceed 80 per centum of the appraised value of the property as of the date the mortgage is purchased, in accordance with the provisions of section 207.

Then we limit it. Otherwise we do not limit it.

Mr. FLEMING. My understanding, Mr. Wolcott, was from an analysis I had of the bill.

Mr. WOLCOTT. I think that is a very pronounced evidence that there is a "colored gentleman in the woodpile" in this bill. I predicate my assertion upon that—that we are going to establish Federal mortgage associations which are going to come into competition with the banks.

Mr. FLEMING. I would think certainly the language ought to be changed so it would be as clear as the analysis I have of the bill, which is as follows:

> This section is amended to permit such associations to make loans on mortgages secured, under section 207, which is the larger low-cost housing administration, but leaves the act as it is in connection with small loans insured under section 203—

which are the mortgages we are talking about, on individual homes.

Mr. WOLCOTT. Do you not think my legal conclusions are logical?

Mr. FLEMING. I think the language definitely, Mr. Wolcott, should be clarified so that they could not loan on the small homes. I think that would be the Government entering into competition, just the same as the Federal savings and loan was entering into competition with other building-and-loan associations.

Mr. WOLCOTT. Do you want to see removed from the act any possibility of the national mortgage associations competing with private enterprise?

Mr. FLEMING. Absolutely; definitely so.

Mr. WOLCOTT. We can change the wording to accomplish that.

Mr. MCGRANERY. Mr. Fleming, supposing the banks decided that this interest rate, under conditions that may occur in the future, would not make the mortgages on small homes attractive to the banks—do you not think that there should be some national mortgage company that would be in a position to make these loans to small home owners?

Mr. FLEMING. Remember that those national mortgage associations would be affected in the sale of their debentures by whatever occurred in the rates for money.

Mr. McGRANERY. That is true.

Mr. FLEMING. That would be the answer there. They would be affected too, and they have only to get a small spread, and that is one thing you have got to be careful of in the national mortgage associations.

Mr. McGRANERY. That is true.

Mr. FLEMING. If they are going to function at all.

Mr. McGRANERY. But again coming back to the other point, Mr. Fleming, that Mr. Wolcott raised, if the banks feel as though they would like this business at the rate of interest they are going to get, do you not think then that there should be some national mortgage company erected to take care of that situation?

Mr. FLEMING. Of course fundamentally I am opposed, sir, to the Government trying to do all the business of the country, and I think that is one of the troubles.

Mr. McGRANERY. I think we are all opposed to that.

Mr. FLEMING. I think in times of emergency, where there was a general break-down, and where people had to be serviced, I think during those times of emergency that it is the duty of Government to step in, but as soon as we get out of that, it is the duty to step out; and the only thing I can suggest on that point—and that is not thought through—is the possibility that maybe unless Congress wanted to keep entire control of the rate, that the Federal Housing Administrator might have some latitude in the adjustment of the rate.

Mr. McGRANERY. As the act now stands he would have that latitude.

Mr. FLEMING. Well, he has downward, but not upward.

Mr. McGRANERY. He has downward but not upward, that is true.

Mr. FLEMING. That is right.

Mr. McGRANERY. But he would be able to take care of the situation that Mr. Wolcott has raised here.

Mr. FLEMING. Well, up to maximum for rates of interest, that he should have. I see nothing in the picture now that could bring you to the conclusion that we are likely to have stiffer interest rates in the next year or so, unless it be some calamity, a war or fright, or something of that sort. There is a great deal of money in the country that is on deposit in the banks, that have been set aside by the increased reserve requirement, which of course could be relinquished to keep money easy if it was desirable and found necessary, but the only way that I can see that you could overcome your question and not run into the direct competition of the Government furnishing the capital to these mortgage associations would be to give the Federal Housing Administrator, if the Congress felt so inclined, a little more latitude in regard to rates upward as well as downward.

Mr. McGRANERY. That is right. Now, there has been some discussion here too, Mr. Fleming, with respect to whether or not the banks of this country are going to be interested in making this type of loan.

Mr. FLEMING. You can only judge by what has happened, by the experience you have seen in the past. There are something over 4,000 banking institutions making this type of mortgage. I think the amount made is about half of the total insured mortgages. The others have been made by building and loan and by other organizations, and so forth.

I think I have already testified that a reduction in the rate of interest might have some retarding influence, because this is an expensive type of loan to handle, as I have explained. I do not know whether you were in the room, sir, when I explained that point, but that is a fact. If you would come into my institution and see it, I would be glad to welcome you and to show any of the gentlemen of the committee just exactly the operation, the costs, and all. I think there is a danger of retarding, and the program ought not to be bogged down by that factor, which I do not believe is material in the monthly payment of the individual. I again go back to say that I believe that the greatest problem is to get houses built for the low-income group, because the higher income group I think are pretty well taken care of under the present provisions and other types of lending. I think the major factors in getting that, which is getting a house that is adequate and livable, with modern conveniences, that can be built at a cost whereby the monthly payment is not going to be very much greater than rent, are those I have stated. Otherwise, the desire for home ownership is not there.

The CHAIRMAN. We thank you very much, Mr. Fleming.

STATEMENT OF FRANK C. FERGUSON, PRESIDENT OF THE HUDSON COUNTY NATIONAL BANK, OF JERSEY CITY, N. J., ON BEHALF OF THE NEW JERSEY BANKERS ASSOCIATION

The CHAIRMAN. Gentlemen, this is Mr. Frank C. Ferguson, president of the Hudson County National Bank, representing the New Jersey Bankers Association.

Mr. Ferguson, before proceeding with the presentation of your full statement, will you summarize for the committee your position with respect to this bill?

Mr. FRANK C. FERGUSON. Mr. Chairman, I want to suggest to you, first, that the interest rate be retained as it is. That is the important thing.

Mr. WOLCOTT. You mean the present law?

Mr. FRANK C. FERGUSON. The present law.

Mr. SPENCE. It does that, does it not?

Mr. McGRANERY. No.

Mr. FERGUSON. No; it cuts it. The net return is going to be 4½ percent.

Mr. SPENCE. Are you talking about interest on the loan, just the interest charge?

Mr. FRANK C. FERGUSON. Just the interest charge; yes.

Mr. SPENCE. Where is there an amendment in this act as to the interest rates?

Mr. FRANK C. FERGUSON. The effect of the bill is to cut the return to the banks.

Mr. SPENCE. There is not any change in this law, not a word, so far as the interest rate is concerned, is there? If there is I would like to have you point it out.

Mr. FRANK C. FERGUSON. No; you cut the service charge, which cuts the return to the bank.

Mr. WILLIAMS. There is nothing in the law about a service charge, is there?

Mr. FRANK C. FERGUSON. No; but we are presuming that the Federal Housing Administrator will follow the President's suggestion and cut the rate.

Mr. WILLIAMS. There is nothing in this law as it is now, and there is nothing in the proposed law, to that effect.

Mr. FRANK C. FERGUSON. No; I agree with you. I say in my memorandum "The amended act is silent as to the interest rate which assured mortgages will bear."

Mr. WILLIAMS. In other words, there is not a proposed change in the interest rate?

Mr. FRANK C. FERGUSON. None in the bill.

The CHAIRMAN. Do you think the change suggested by the administration will operate to deter bankers from entering that field of investment?

Mr. FRANK C. FERGUSON. That is our thought; yes, sir.

The CHAIRMAN. Now, if you will, just go ahead. I understand you are opposed to the bill.

Mr. FRANK C. FERGUSON. No. No; we are not opposed to the bill. We like the bill in many respects. We would like to make some suggestions as to where we think the bill can be improved.

The CHAIRMAN. You will pardon me for injecting that remark into the discussion. The statement has just been made to me by a member of the committee that you were opposed to the bill, as one of the reasons why we wanted to hear you. That is all right.

Mr. FRANK C. FERGUSON. No, no.

The CHAIRMAN. I have no desire to misrepresent your position.

Mr. FRANK C. FERGUSON. We think that whether the effect of cutting the returns to the banks, as we antitipate it will be, will have exactly the reverse effect from what the President intends, or has said in his message he intends, it will not have the effect on small building. It will have the effect of retarding building, in our opinion.

Mr. SPENCE. How would you amend the law to effectuate the purpose you are speaking of? That seems to be administrative entirely.

Mr. FRANK C. FERGUSON. I submit, Mr. Chairman, I would like to run through my prepared memorandum here, and I will get it through in 10 minutes, and then you can follow my argument all the way through.

The CHAIRMAN. You may proceed. So far as I am concerned, you will not be interrupted for 10 minutes.

Mr. FRANK C. FERGUSON. A bill to amend the National Housing Act was introduced in the House of Representatives on November 29, 1937.

The committee on Federal Housing Act legislation, appointed by the New Jersey Bankers Association, desires to record, in behalf of the New Jersey Bankers Association, its endorsement and approval of the achievements of the Federal Housing Administration. We make this statement because we desire to emphasize at the outset that any suggestions or criticisms which are hereinafter offered in this memorandum are intended not as a reflection on the administration of the Federal Housing Act, but solely to aid in the clarification of and to improve, if possible, the proposed amendments to the National Housing Act.

Our suggestions and criticisms, as embodied in this memorandum, deal entirely with titles II and III thereof. The amendment to title I of the National Housing Act meets with our entire approval.

The amended act is silent as to the interest rate which insured mortgages will bear, leaving, therefore, paragraph 5 of section 203 (d) unchanged. This paragraph provides—

> To be eligible for insurance under this section a mortgage shall bear interest exclusive of premium charges for insurance not to exceed 5 per centum per annum on the amount of the original principal outstanding at any time or not to exceed 6 per centum per annum if the Administrator finds that in certain areas or in special circumstances the mortgage market demands it.

If left as it is, the Administrator will, no doubt, fix an interest rate of 4.5 percent in accordance with the President's message to the Congress on November 29, in which the President said:

> It is proposed to reduce this to 5 percent net by amending the administrative regulations.

This 5 percent will presumably include the service charge of one-half of 1 percent, thus making the net interest return 4.5 percent.

The New Jersey Bankers' Association is of the opinion that the reduction in the net interest rate from 5 percent to 4.5 percent will have an effect exactly the reverse from what the President expects, since Federal Housing Administration relies entirely upon the cooperation of private capital and an interest rate of 4.5 percent might be so unattractive as to eliminate a great number of the smaller institutions which are now and have been consistently active in originating Federal Housing Administration mortgages.

The reduction of one-half of 1 percent in the interest rate will cause almost all of the mortgagors to seek a similar reduction and banks and insurance companies now constituting the principal holders of Federal Housing Administration mortgages will be constantly and continuously importuned by present mortgagors to reduce the interest rate on mortgages made prior to the enactment of this amendment and the regulations to be promulgated thereunder.

It must be borne in mind that many financial institutions have already purchased all of the mortgages which the law permits them to carry; others will shortly arrive at an amount beyond which good business will not permit them to go. On the other hand, experience has shown that in order to justify the maintenance and operation of an insured-mortgage department, banks generally must make more mortgage loans than they can use for their own account and the only reason, therefore, why banks have been able to support the Federal Housing Administration program until now is because they have been able to find outside purchasers for such mortgages on a 4.5 percent basis.

Purchasers of such mortgages have allowed such institutions a differential of one-half of 1 percent in addition to the service charge which the mortgagor pays to the originating institution. This additional compensation is paid because the purchasers recognize that in order that institutions which originate, service, and later sell such mortgages may be properly compensated, and in order to continue their interest in properly servicing mortgages they must receive from the purchaser an additional service charge of at least one-half of 1 percent.

It may be argued that the purchasers can continue to grant an allowance of one-half of 1 percent and still have an attractive investment. It is doubtful, however, that purchasers in substantial numbers and for substantial amounts can be found who will be willing to

invest on a 4-percent basis in an investment which by its terms has a maturity of at least 20 years and on which the principal is amortized monthly.

For the above reasons we recommend that the interest rate be retained at the present rate of 5 percent and that rather than leave it to the discretion of the Federal Housing Administrator a minimum interest rate of 5 percent be enacted into the law.

If your committee does not adopt this suggestion we recommend that the service charge which at present is one-half of 1 percent of the diminishing amount of the mortgage, be fixed at the rate of one-half of 1 percent of the original amount of the mortgage.

Unlike the insurance premium which has very properly been reduced under the amendment to one-half of 1 percent of the diminishing amount of the mortgage, the cost of servicing Federal Housing Administration mortgages does not diminish with the amount due on the mortgage. It is quite obvious that banks will hesitate to undertake a commitment to service an insured mortgage when they know, as they do, that beginning with the tenth year, and each year thereafter, the cost of servicing, if dependent on the service charge alone, will result in an annual loss to the servicing institution, which loss will increase from year to year, for it must be remembered that "servicing" means not only the collection of carrying charges, the payment of taxes, the placement of fire insurance, and so forth, but includes responsibility for the proper care and preservation of the property securing the said mortgage. "Servicing," then, involves the duty of frequent inspections (at least once a year) and the following up of recommendations and instructions to the end that no waste shall have been committed—a serious responsibility which cannot be taken lightly, and a financial burden which increased with the number of mortgages serviced and the age of the mortgages.

It is, therefore, only fair that the service charge of one-half of 1 percent be placed not on the diminishing amount but upon the original amount, because regardless of the amount of the mortgage the cost of servicing does not diminish.

If, however, despite our urgence, you do not adopt our suggestion with respect to the service charge, many of our institutions are of the definite opinion that they cannot make 90 percent loans unless this bill provide that in the event of forcelosure of a defaulted mortgage (or the acquisition of title without foreclosure), reimbursement by the Federal Housing Administration to the insured shall include in the debentures foreclosure costs limited to $250 on mortgages up to $7,000 and $500 on mortgages in excess of $7,000.

Further, it is our opinion that the amendment to the National Housing Act under section 210 thereof should also provide for reimbursement for foreclosure expenses in an amount not exceeding 1 percent of the mortgage.

With reference to that section of the act (amendments to subsection 2 of subsection 203 (b)) which provides for the insurance of 90 percent mortgage loans on properties appraised at nor more than $6,000, we have this to say: We come from a State which is densely populated and where, of necessity, owners of homes must live within a reasonable distance of their places of employment. Consequently, land values and costs of construction are high.

In order to make available decent liveable homes which will sell at as low a price as $6,000, builders will have to acquire tracts of land at considerable distance from industrial centers. While it may be possible to entice buyers to purchase these properties, we are apprehensive that eventually and long before the maturity of the mortgages, the inconvenience and the cost of living in these out of the way places will cause a high mortality among the 90 percent mortgages. For that reason we question whether banks and other investors in our part of the country will be attracted to this type of investment.

If, however, you, in your wisdom, should decide to retain this amendment we submit that it will create dissatisfaction in that it discriminates against the purchaser who desires to acquire a better home; for example, the purchaser of a $6,000 home can obtain a $5,400 mortgage and need invest only $600, whereas the purchaser of a $6,100 house can obtain only a $4,880 mortgage and must invest $1,220.

If you decide to retain this provision in the act, it would be more equitable if a provision were made permitting the buyer of a $6,100 house to acquire a mortgage of 89 percent, the buyer of $6,200 house a mortgage of 88 percent, and so on. The buyer of $7,000 house can obtain an 80 percent mortgage as at present.

While in this section of the country the bankers and other lending agencies would, in our opinion, be opposed to the granting of mortgages up to 90 percent of the appraised value we realize that the Congress must take into consideration the needs of the country as a whole, and cannot pay too much attention to any one particular community or State. We further realize that the granting of mortgages up to 90 percent may be considered by the advocates of this bill as a necessary stimulant to new building and the elimination of this provision may be looked upon as destroying one of the essential things desired by the proponents. We, however, do not think that the elimination of the 90 percent insurance provision will retard building because we are satisfied that the recession in building activity could have been avoided or possibly ameliorated if the various other provisions which are contained in the amendments now under consideration by your committee had been in effect in the spring of last year; namely:

First, the reduction of the insurance premium charge from one-half of 1 percent of the original amount of the mortgage to one-half of 1 percent on the diminishing amount of the mortgage.

Second, the insurance of mortgages on multifamily dwellings, particularly apartment houses in industrial centers which have no cheap land available for the construction of moderately priced one-family houses.

Third, the failure to grant unconditional insurance on construction loans to operative builders.

The amendment on page 4, line 14, provides that on mortgages not in excess of $5,400 covering property which is owner occupied, the Federal Housing Administration may issue mortgage insurance up to an amount not to exceed 90 per centum of the appraised value of the property, provided that the owner shall have paid on account of the property at least 10 per centum of the appraised value in cash or its equivalent. What is meant by "equivalent" should be defined in the act, rather than left to the discretion of the Administrator because in the experience of some of our institutions, while in the beginning the local Federal Housing Administration agency would

accept certain equities in kind as the equivalent of cash they later refused to do so. We know of actual cases where the builders in their anxiety to liquidate were willing to sacrifice newly constructed homes at prices between 10 to 15 percent below the appraisal by the Federal Housing Administration, but the local Federal Housing Administration agency refused to recognize the marginal difference to be equivalent of cash.

With reference to the new section of the amendment of the National Housing Act, set forth in paragraph 210 (a), builders in our section of the country are unanimous in their opinion that apartment houses of the type that the FHA requires to be built cannot be constructed at the amount set forth in the bill; namely, $1,000 per room; hence, we recommend that the mortgage limit be raised from $1,000 to $1,200 per room.

This section of the amendment, which deals with the construction loans on apartment houses and multifamily dwellings in an amount not to exceed $200,000, should, in our opinion, contain the same default provisions as are set up for low-cost housing projects on page 21 of the bill, lines 10 to 25, inclusive, and continuing on page 22, lines 1 to 18, inclusive.

Subsection 2 of section 210 (b) provides for mortgages on multifamily dwellings and contains provisions limiting the maturity of the mortgage to 20 years with amortization provisions satisfactory to the administrator. If it is not intended that the full amount of the mortgage shall have been paid through amortization, the bill should be made more explicit. The life of a multifamily dwelling, such as is contemplated by this act, is much greater than 20 years. Therefore, provision should be made to require amortization payments which at the end of 20 years will have reduced the mortgage to, say, 30 percent of its original amount.

In connection with amendments to section 301 (d) of title III of the act, it is quite obvious that Congress realizes the great difficulty in interesting private capital in national mortgage associations, and the President, too, recognizes this difficuty when he says in his message to Congress—

in order that one or more such associations may be properly organized I shall ask the Reconstruction Finance Corporation to make available out of the funds already allocated to the Reconstruction Finance Corporation Mortgage Co. $50,000,000 for capital purposes.

The amendment seeks to encourage private capital to create national mortgage associations by providing that an association may be organized and may commence to function when but 25 percent of its capital has been paid in. But, this supposed inducement to private capital is nullified by that provision in the act which states—

No association shall issue notes, bonds, debentures, or other such obligations until such time as such subscriptions are paid in full in cash or Government securities at their par value or mortgages or other liens as hereinbefore set forth.

It is quite obvious that, except possibly in a few of the large financial centers of the country, it will be practically impossible to sell the initial capital of $500,000 unless the association is allowed to issue debentures at least in the same proportion as it will be upon the full payment of the capital. If the act is so amended an association with a paid in capital of $500,000 will be able to issue debentures up to an amount of $10,000,000. Institutions which have begun to function with the minimum of required capital will be able to interest prospective investors in further stock subscriptions by demonstrating their ability to earn a reasonable return on the capital invested and will have far less difficulty in obtaining such additional capital than if the right to issue debentures is deferred until the full capital has been paid in.

The demonstration of actual earning capacity is a far greater inducement to new capital than the mere projection of paper profits.

Furthermore, we believe that even though this provision be changed, considerable difficulty might still be encountered in obtaining this type of capital because of the disastrous experience of investors in guaranteed participation certificates in the large financial centers. Hence, we recommend that members of the Federal Reserve System be permitted to subscribe to and hold the capital stock of national mortgage associations in an amount not to exceed 10 percent of their capital and permanent surplus, provided that national mortgage associations in which members of the Federal Reserve System shall take stock interest, shall limit themselves in their articles of association or by-laws to the purchase, sale and retention of only such mortgages as shall have been insured by the Federal Housing Administration. This would serve the dual purpose of providing capital for the immediate incorporation and establishment of national mortgage associations and also place the responsibility for the management and conduct of the affairs of such associations in the hands of men who are familiar with finance in general and the mortgage field in particular.

Page 5, line 10, to page 6, line 12, inclusive, merits the attention and consideration of your committee because considerable injustice has heretofore been done to builders who obtained mortgages while buildings were under construction.

Under the present practice the builder on obtaining a loan pays the insurance premium of one-half of 1 percent on the amount of his loan in advance for 1 year. Shortly after completion he sells the property to a purchaser acceptable to the Federal Housing Administration and the financial institution which holds the mortgage and a new mortgage is executed by the purchaser. At the time of the closing of the mortgage a second insurance premium is exacted at the rate of one-half of 1 percent for 1 year in advance. The Federal Housing Administrator has consistently refused to refund any part of the insurance premiums exacted for 1 year in advance and defends this practice by saying that the entire insurance premiums which had been exacted from the builder for 1 year in advance represents the cost to the Federal Housing Administration of placing the builder's mortgage on its books. This is considered arbitrary and unfair by the builders and has been a constant source of annoyance to originating institutions.

We submit that the insurance premium heretofore paid by the builder on a mortgage granted to him which is subsequently replaced through another mortgage, should be prorated in the same manner as is the prepayment penalty at the present time, by exacting the premium from the builder only for such period of time as his mortgage has been on the books prior to it being replaced by the mortgage of the purchaser.

Mr. McGranery. Mr. Ferguson, you stated, I understand that in effect a mortgage of 90 percent is not a safe investment. Could you tell us why?

Mr. FRANK C. FERGUSON. We have a feeling that the owner has not sufficient cash in the property to insure his keeping it in the event things go wrong or he gets dissatisfied with the locality or something. We do not think 10 percent is sufficient to hold him to the property.

Mr. MCKEOUGH. Mr. Ferguson, one of the features which you pointed out as one that might be a disability was the foreclosure cost.

Mr. FRANK C. FERGUSON. That is right.

Mr. MCKEOUGH. Obviously in connection with this sort of investment both the lender and the borrower hope no foreclosure develops. That is, when the contract is made. I wonder whether or not you have given any consideration to the idea that it would serve to make less likely such a foreclosure proceeding after the contract is entered into and the lender furnishes the necessary capital and the borrower builds his house. Let us assume it is a 90-percent mortgage, the low-cost single dwelling ownership feature which after all is the most desirable thing the country could get, and after a year's occupancy the borrower loses his job, another recession sets in, would you think it more attractive if the Government through either the Federal Housing Administration or the Reconstruction Finance Corporation standing by the Federal Housing Administration, stepped into the picture and currently paid the monthly payments say for a period of 1 year or 2 years, so that there would be no foreclosure required in that event, and those payments made by the Government would become a subordinate lien to the existing mortgage; in other words, if it were 18 years, the Government paid 1 year or 2, then at the expiration of the life of the original mortgage the Government would take its payments and thus avoid foreclosure, on the premise that the lender and the borrower had been mutually benefited and the country as a whole improved, would you have any particular objection to such a set-up as that being worked in?

Mr. FRANK C. FERGUSON. No.

Mr. MCKEOUGH. Would you like to have that?

Mr. FRANK C. FERGUSON. That is springing something entirely new on me.

Mr. MCKEOUGH. What we are seeking is to try to develop a program of construction throughout the country to benefit every activity called "industry" in the Nation, and to relieve the Government from an added burden of relief, which obviously it must meet with the continuance of the "tailspin" of unemployment. I am thinking of the Government, thinking of the borrower, thinking of the lender, thinking of the whole purpose of this act as it was originally conceived for the benefit of all the people, as far as it is humanly possible to meet a situation. Certainly we do not want foreclosures if we start the program, and would it not be cheaper in your opinion if the Government were to stand by as a guarantor of current monthly payments until the man was restored to gainful employment?

Mr. FRANK C. FERGUSON. Under your plan he would continue to occupy the premises without cost to him?

Mr. MCKEOUGH. No; that is not exactly putting it. The cost would be one that follows. Following the payment to the original lender, he would then pick up and pay off to the Government.

Mr. FRANK C. FERGUSON. But would he not continue to occupy his home?

Mr. MCKEOUGH. Oh, absolutely. It would not be any benefit if he got out. Now, after all, the fellow that builds the home, as I am looking at the situation, makes the biggest bet. He is the fellow that puts his all into the situation. If he makes a down payment of 10 percent it is obvious that it must have been a considerable sacrifice, by the application of frugality and thrift, that he is in a position to do that. Most every married man obviously looks to the ultimate ownership of his own home. He is desirous of obtaining it, in this country as in all others, I assume. I am thinking about making that a possibility and a continuing one in the event of some unforeseen situation being foisted upon him that causes him to be laid off from his current work. That is the thought I have in mind. I was just wondering if it would be a practical arrangement and whether it would be an attractive one to you, representing the lenders.

Mr. FRANK C. FERGUSON. If we make a 90-percent loan and the payments and all of the servicing charges are paid to us promptly at the end of each monthly period, it does not make the slightest bit of difference to us whether they come from the mortgagor or whether they come from the guaranteeing Government.

Mr. MCKEOUGH. Except that you have an added ally in the way of an assured current payment.

Mr. FRANK C. FERGUSON. Yes; but out contract is carried out. That is the point I am making—our contract is carried out. If it was a good contract at the inception it is good, just as good, because the guaranteeing institution, the Government, is making the payments, as it is if the owner were making the payments.

Mr. MCKEOUGH. Wouldn't it be a little better?

Mr. FRANK C. FERGUSON. Well, I do not know that. A $10 bill is just as good, and no better, if it comes from the Government than as if it came from the borrower.

Mr. MCKEOUGH. Of course it is better if you get it than if you do not get it?

Mr. FRANK C. FERGUSON. Yes; it is better if you get it than if you do not; so from that statement I should say that did not make a particle of difference to us, whether the payment came from the mortgagor or whether it came from the guarantor.

Mr. MCKEOUGH. Of course, what we are seeking to do is to do all the things that 130 million people want us to do. One of the first things, of course, is to make for a happier situation where the Government will not be interfering with private business. That is one complaint. The second is we have got to balance the Budget. I shall not go into the whole situation here, but that particular combination is enough for any one very humble member of the Congress to try to work at. And what I want to do is reestablish employment. I think that is what the President wants to do.

One of the things that suggest itself to me as attractive for consideration at least, is the proposal I suggest. It may not be worth anything, but after all it will have some stimulation to business as I see it, and the obligation of caring for its people by that instrument called "Government," and if the unemployment conditions continue to become more severe the added cost to the Government as I see it is going to be geometrically larger through relief than it would be through this sort of guaranty, coupled with other activities of that

kind which may reduce the unemployment and the relief costs. And being a banker I thought by reason of the guaranty feature being worked in it might add some attractiveness, coupled with the complaint you make and the other suggestions that you offer for the improvement of this plan.

I personally will have no objection to making as attractive as it can be made the plan now under consideration, to the loan agencies, if need be tomake the debentures tax-exempt or the gross rate of the mortgage where you suggest it might be left; but that is only one phase of the picture: If we please you, we have to naturally attract the borrower, we have to give him something. Then we have, in between the lender and the borrower, the labor cost and the material cost. The President has made a reference to the annual wage feature, which I think has potentialties and which I think can be worked out. Costs have also got to be considered with a view to keeping the cost of homes from being exorbitantly increased, if we get that happy condition do you think we might start with a program that will get somewhere nearer the objective that we seek?

Mr. FRANK C. FERGUSON. I think so.

Mr. WOLCOTT. Mr. Ferguson, just one question. I interpret that part of your statement having to do with themembers of the Federal Reserve subscribing to capital stock in national mortgage associations to be a manner in which this capital might be created but not an advocacy of the establisment of the Federal Mortgage Association. Is that correct?

Mr. FRANK C. FERGUSON. I am starting with the premise that the creation of national mortgage associations is advisable.

Mr. WOLCOTT. You consider it advisable?

Mr. FRANK C. FERGUSON. Do I consider it advisable? Yes.

Mr. WOLCOTT. Do you consider it advisable for the Federal Reserve members to create competition for themselves?

Mr. FRANK C. FERGUSON. I do not think they are creating competition for themselves.

Mr. WOLCOTT. What do you think is the purpose of the national mortgage associations?

Mr. FRANK C. FERGUSON. To stimulate building.

Mr. WOLCOTT. What do you think is the purpose of this act?

Mr. FRANK C. FERGUSON. To stimulate building.

Mr. WOLCOTT. Building is stimulated, I understand your statement, by the making available of credit for building, by loaning agencies. Do you think there is anything in this act which gives impetus to the acceleration of building credits?

Mr. FRANK C. FERGUSON. Yes.

Mr. WOLCOTT. Maybe I have misunderstood your statement, then. You said that the 10 percent was less attractive than 20 percent. You would hesitate to make loans on 10 percent?

Mr. FRANK C. FERGUSON. No; you misunderstood me. Are you talking about the act as it is exactly now written?

Mr. WOLCOTT. No; as proposed.

Mr. FRANK C. FERGUSON. Oh, then my answer was wrong to you.

Mr. WOLCOTT. I assumed that you were in opposition to raising the amount of the obligation and reducing these interest rates.

Mr. FRANK C. FERGUSON. That is right.

Mr. WOLCOTT. The reason your bank would hesitate to make these loans?

Mr. FRANK C. FERGUSON. That is right. I misunderstood your question.

Mr. WOLCOTT. But the testimony you have given, to the encouragement and the creation of national mortgage associations to compete further with you?

Mr. FRANK C. FERGUSON. No; I think they supply an entirely different purpose.

Mr. WOLCOTT. You assume they are confined to the construction of multiple-unit dwelling?

Mr. FRANK C. FERGUSON. Yes.

Mr. WOLCOTT. The proposed bill now does not do so, but allows national mortgage associations to make loans directly—not only take your paper but make loans directly to the home owner provided he has paid in 20 percent, regardless of the appraised value of the home. Now, with that as your understanding will you still say that the Federal Reserve members should subscribe to stock in national mortgage associations, and set up competition for themselves?

Mr. FRANK C. FERGUSON. No.

Mr. MCGRANERY. You do think, Mr. Ferguson, there should be some lending agencies to supply any need of cash that will be made by the bankers if they feel these loans are not attractive enough for them to take?

Mr. FRANK C. FERGUSON. I do.

Mr. WOLCOTT. Then, at the present time, you can proceed to make loans provided there is a market, provided there is a desire on the part of people to build, so this whole act turns upon more stability in the income on the average of the person who wants to build, does it not?

Mr. FRANK C. FERGUSON. And other factors.

Mr. WOLCOTT. Yes; and we have already set up the machinery whereby he may get this loan for the purpose of building, so if we destroy the attractiveness of this business to you then it is necessary for us to set up national mortgage associations to take over that field of endeavor, is it not?

Mr. FRANK C. FERGUSON. I should say yes to your question.

Mr. WOLCOTT. So there is a possibility of our providing a situation whereby it makes it impossible for the banks to make these loans and at the same time setting up a Government agency to make the loans, and we are getting right around to the old proposition which we have been fighting here for the last 4 years, of creating Government agencies to take over what should be the work and the activity of private enterprise. Thank you very much, Mr. Ferguson.

Mr. SPENCE. You represent the banks of New Jersey, I understand.

Mr. FRANK C. FERGUSON. Yes; I am the chairman of a committee appointed by the New Jersey Bankers Association.

Mr. SPENCE. That includes the National and State banks?

Mr. FRANK C. FERGUSON. Everything, yes, sir; in the State.

Mr. SPENCE. What percentage of the assets of the bank are loaned on small homes, have you any idea?

Mr. FRANK C. FERGUSON. No; I haven't.

Mr. SPENCE. Have you any idea what the average rate of interest would be in New Jersey?

Mr. FRANK C. FERGUSON. Yes; I can tell you in our own institution. On our mortgages which we have in our portofolio we are making an average of 4½ percent.

Mr. SPENCE. You are making an average of 4½ percent?
Mr. FRANK C. FERGUSON. Yes.
Mr. SPENCE. Are they insured?
Mr. FRANK C. FERGUSON. No.
Mr. SPENCE. Do you sell any of that paper?
Mr. FRANK C. FERGUSON. Do we sell any of the F. H. A. mortgages that we took?
Mr. SPENCE. Yes.
Mr. FRANK C. FERGUSON. Yes.
Mr. SPENCE. Do you still service them after you sell them?
Mr. FRANK C. FERGUSON. Yes.
Mr. SPENCE. You continue to service them?
Mr. FRANK C. FERGUSON. Yes; we retain the servicing rights.
Mr. SPENCE. What percentage of the value of the property do you loan?
Mr. FRANK C. FERGUSON. You mean other than F. H. A. mortgages?
Mr. SPENCE. Other than F. H. A.
Mr. FRANK C. FERGUSON. Fifty percent. We are a national bank, I am talking about.
Mr. SPENCE. Is that amortized?
Mr. FRANK C. FERGUSON. No; in the old days we did not amortize. We loaned 50 percent of the then value of the property.
Mr. SPENCE. That is what you continue to loan on mortgages outstanding?
Mr. FRANK C. FERGUSON. We have not made any mortgage loans without——
Mr. SPENCE (interposing). What has been the percentage of the loss on mortgages to the homes?
Mr. FRANK C. FERGUSON. In our section?
Mr. SPENCE. In your organization.
Mr. FRANK C. FERGUSON. Very heavy, on 50 percent.
Mr. SPENCE. On the 50 percent?
Mr. FRANK C. FERGUSON. Very heavy; yes.
Mr. SPENCE. Has that continued over a long period of time?
Mr. FRANK C. FERGUSON. Up to 1929 the losses on such loans were negligible. Since 1929 the losses on 50-percent mortgages have been very heavy.
Mr. SPENCE. Are these old mortgages which you made before that period, which you carried along, amortized over a period of 20 years?
Mr. FRANK C. FERGUSON. Made in that period, say from—ours are made in the period from 1923 to 1929, which we got caught with in 1929; losses on those mortgages have been very heavy.
Mr. SPENCE. It is on the old mortgages which you made before 1929 that you sustained your greatest losses?
Mr. FRANK C. FERGUSON. That is right. We haven't made any since 1929.
Mr. SPENCE. You cannot, under the F. H. A.?
Mr. MCKEOUGH. Is that why we have the F. H. A., Mr. Ferguson?
Mr. FRANK C. FERGUSON. Yes; that is why you have the F. H. A.
Mr. HANCOCK. Mr. Ferguson, what was the average term of your straight mortgage loans?

Mr. FRANK C. FERGUSON. We made them all in our section of the country, and I think in New York and New Jersey. I think in New York the banks make loans for 1 year.
Mr. HANCOCK. What percent of your straight mortgages were paid at maturity, and what percent of them had to be renewed or refinanced?
Mr. FRANK C. FERGUSON. We never bothered to renew them. We ran them along as past-due mortgages.
Mr. HANCOCK. You ran them along as past-due mortgages?
Mr. FRANK C. FERGUSON. Yes. Everybody does.
Mr. HANCOCK. What percent of them were paid off at the end of 1 year?
Mr. FRANK C. FERGUSON. Practically nothing.
Mr. CRAWFORD. Mr. Ferguson, with reference to this 10-percent purchase by the member banks, assuming that mechanism is completely carried through and the banks thus woven into the mortgage fabric of the Nation, do you feel that that would give the mortgage holder as fair a chance for marketing his mortgage paper from time to time and liquidating quickly, as a stockholder, when he uses the mechanism of the stock exchange to bring about his liquidation?
Mr. FRANK C. FERGUSON. I am not following you. I could not follow your question. Give that to me again.
Mr. CRAWFORD. If the member banks weave themselves into the mortgage financing fabric of the Nation as you have suggested, do you feel that that would bring about a liquidating mechanism for the mortgage holder, that would come to his rescue in liquidating, as a stock exchange comes to the rescue of the man who holds corporate stock and desires to liquidate?
Mr. FRANK C. FERGUSON. No.
Mr. CRAWFORD. That is all I have.
The CHAIRMAN. Thank you very much, Mr. Ferguson.
(Whereupon, at 12:40 p. m., the committee adjourned to 10 a. m., Friday, December 10, 1937.)

33604—37——12

AMENDMENTS TO NATIONAL HOUSING ACT

FRIDAY, DECEMBER 10, 1937

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m., Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs Steagall, Goldsborough, Reilly, Hancock, Williams, Spence, Farley, Meeks, Ford of California, Brown, Patman, McKeough, Evans, Transue, McGranery, Barry, Wolcott, Gifford, Luce, Crawford, and Gamble.

The Chairman. Gentlemen, there is a witness here from New York who desires 2 minutes. We shall be glad to hear him.

STATEMENT OF JOSEPH E. HUGHES, PRESIDENT OF THE WASHINGTON IRVING TRUST CO., TARRYTOWN, N. Y.

Mr. Hughes. Mr. Chairman, we have made approximately 1,200 Federal housing loans——

The Chairman. Now, who is "we"?

Mr. Hughes. The Washington Irving Trust Co., of Tarrytown, N. Y., of which I am president—amounting to about $5,500,000, and in excess of the amount required in our portfolio, we have sold these to about 32 lending institutions, including banks, insurance companies, and charitable organizations located in northern New York, Vermont, Maryland, New Jersey, Indiana, and Ohio.

It has been our experience that many institutions are not convinced that these mortgages even at 80 percent of the appraised value and a return of approximately 5 percent are an attractive investment. In other words, it has required considerable salesmanship to dispose of these mortgages, and only a very small percentage of the institutions that have been contacted have shown any interest in them at all.

A great many of the insurance companies have neither made nor purchased any of these loans. In cases where they have bought, they have taken only what would be considered a prime risk, and have paid little attention to the guarantee.

Very few of the mortgages have been made by New York City savings banks or commercial banks. While a fair percentage of the F. H. A. loans that have been made in the country have been made in the New York area, the building program of the last few years would not have been possible if banks such as ours had not been able to bring capital to the New York market from other parts of the country where building has not been so active. It has also been our experience that it is much more difficult to sell mortgages on houses under $6,000 than on those over $6,000.

I firmly believe that if the risk is increased and the rate of return lowered this market will dry up. The return that these investors will receive in comparison to tax-exempt bonds will not be sufficiently attractive to offset the risk involved in the additional bookkeeping.

It has been our observation that houses in this community sold well until business started to drop off. Lack of confidence in the future and the high cost of labor and materials slowed up building rather than the cost of finance or down payment.

I believe that the interest rate in comparison to tax-exempt bonds is not sufficiently attractive, if you reduce it any more, because of the additional risk and the additional amount of bookkeeping required on F. H. A. mortgages.

The CHAIRMAN. We thank you very much for your statement.

Mr. FARLEY. Mr. Chairman, there is one thing he brought up there, I wish he might explain now. You just made a statement that mortgages under $6,000 were much more in demand than those above?

Mr. HUGHES. I said those above $6,000 were more in demand than those below.

Mr. FARLEY. I just got it reversed then. In other words a $10,000 mortgage is more in demand than a $6,000 mortgage?

Mr. HUGHES. We have found that in our experience.

Mr. FARLEY. How does it happen that the Home Owners' Loan Corporation is not having that experience?

Mr. HUGHES. I could not answer that.

Mr. FARLEY. That is a very important matter before this committee It has already been up for discussion. The Home Owners' Loan Corporation has foreclosed a lot of mortgages. They have very little difficulty selling houses at $6,000 and under, but when it gets up to around $10,000 they cannot sell them at all.

Mr. HUGHES. The Home Owners' Loan Corporation houses were of a different type than the ones you are talking about under the Federal Housing. They were the old type of houses. The large mortgages are on large, old houses that are antiquated, whereas your houses here are modern houses, the mortgages of $10,000.

Mr. FARLEY. That is all I wanted to ask.

The CHAIRMAN. Our next witness is Mr. Bodfish.

STATEMENT OF MORTON BODFISH, EXECUTIVE VICE PRESIDENT OF THE UNITED STATES BUILDING AND LOAN LEAGUE, 333 NORTH MICHIGAN AVENUE, CHICAGO, ILL.

(Mr. Bodfish presented a typewritten statement including amendments, which is as follows:)

STATEMENT RE LEGISLATION TO STIMULATE CONSTRUCTION OF HOMES AND APARTMENTS (H. R. 8520 AND S. 3055)

(By Morton Bodfish, executive vice president of the United States Building and Loan League, Chicago, Ill.[1])

The savings, building, and loan associations of the United States are anxious to do everything practical and possible to encourage the buying, building, and owning of homes and the improvement of housing and employment conditions throughout the United States. These thrift and home-financing institutions consider it most appropriate that the President of the United States should ask the Congress to consider this question at this time. We are in favor of general retrenchment in Government activities and expenditures. We believe that house-

building activity follows or accompanies general business activity. Much greater building activity would undoubtedly have taken place in recent years had not costs completely outrun rents. High costs and low rents, coupled with vacancies and unabsorbed existing property, inevitably make a slow real-estate and new-construction market. Frankly, in most cities and towns it has been cheaper to rent or purchase existing properties than to build new homes or apartment buildings. The problem is a serious one and we trust that the committees of the Congress will canvass all available resources and methods which can contribute to the objective properly stated by President Roosevelt in his housing message, namely, "private enterprise and private capital must bear the burden of providing the great bulk of new housing." Today, except for a few areas, our thrift and home-financing institutions are actively financing the repair, buying, building, and owning of homes. In 1936 our institutions loaned nearly a billion dollars and this year we will pass this figure.

The legislation proposed to carry out the objectives in the President's message deals exclusively with amendments to the National Housing Act (F. H. A.). A number of the proposals we feel merit trial and can be supported by our thrift and home-financing institutions. Others need careful scrutiny as to whether they will accomplish in an orderly way better housing and greater home ownership in the United States through private enterprise. Questions of fundamental long-time policies are involved upon which may depend the future course of home financing in this country. For example, should the leadership and Treasury of the Federal Government be thrown behind the building of large apartment dwellings for rent, primarily in large cities? Should the guaranty or insurance of private mortgage debt become permanent policy and be placed on a subsidy basis, with the United States Treasury obligated to repay the commercial banks (who are and will be the principal lenders under the new legislation) in a future depression or real-estate deflation? Is it truly "private enterprise" if Government capital must be used to organize national mortgage associations to make and buy the mortgages insured or guaranteed by the Government through F. H. A.? Is it in the interest of local institutions and private enterprise for the Government to attempt to control interest rates and loan terms, possibly to the point where community thrift institutions, with their billions of funds supplied by savers and investors, the "little lenders" of the United States, cannot successfully operate?

The amendments and suggestions which follow have two purposes: First, to direct the F. H. A. activities toward new construction, repairs, and employment on a fair basis that does not involve undue risk, subsidy, or ultimate loss on the part of the Government; and, secondly, to so modify existing legislation that our thrift and home-financing institutions which are today doing from half to two-thirds of the home financing, can continue to function effectively under the new conditions which may grow out of this legislation. Again, our savings, building, and loan associations are anxious to cooperate in every way to serve the general welfare. We believe that our 100 and more years of experience in cooperative activity in practically every community in the United States, through which over 8,000,000 families have been enabled to build or acquire homes, attests our usefulness and objectives.

The amendments, preceded by a brief explanation, follow.

SUGGESTIONS AND AMENDMENTS TO H. R. 8520 AND S. 3055 SUBMITTED BY THE UNITED STATES BUILDING AND LOAN LEAGUE

Section 5, pages 2–3.—The President's message clearly suggests a limitation of $2,000,000,000 on the amount of mortgages insurable under the National Housing Act. The bill permits this limit to be raised "with the approval of the President."

Assuming that $2,000,000,000 is the limit to which the President and Treasury advisers desire the United States Treasury to assume ultimate or contingent liabilities as regards the insurance of these private mortgage debts, the question of continuing to underwrite or guarantee mortgages now in existence should be explored in relation to the need for new construction and employment. If a billion dollars in mortgages are now insured, only a billion remains to carry out the broad program which is contemplated for the F. H. A. in the pending legisla-

[1] The United States League is the national trade organization of cooperative thrift and home-financing institutions. These institutions have been active in the United States since 1831 in encouraging thrift and using accumulated savings and investments exclusively to finance the buying, building, and owning of homes by high-percentage, long-term, amortized first mortgages. The league represents over 4,000 individual institutions and 47 State leagues. Its member institutions have 80 percent of the total assets of such institutions in the United States and include savings and loan associations, building and loan associations, cooperative banks, and Federal savings and loan associations in every part of the United States.

tion. Of the billion now "accepted for insurance" (which does not mean premium-paying mortgages) approximately $600,000,000 involves the guaranteeing and refinancing of existing debts and only $400,000,000 represents new construction. This legislation provides for the retirement of the F. H. A. from insurance of existing private mortgage debts on *July 1, 1939*. We recommend that the F. H. A. immediately concentrate all its activities on new construction and structural repairs and thus aid building and employment exclusively. As 3 years of effort of the F. H. A. have not substantially revived new construction, it would seem that the emphasis might very properly be placeed on recovery in business, rather than the reform and guarantee of existing mortgage debt.

We therefore recommend the following amendment, which after January 1, 1938, would concentrate the F. H. A. on business and guarantees which would encourage and support new construction and employment:

> *Section 5, page 3, line 4*, of H. R. 8520 and S. 3055 is amended by striking out the words and figures "July 1, 1939" and inserting in lieu thereof the words and fiugres "*January 1, 1938.*" [2]

Section 7, pages 3–4.—This section proposes 90-percent loans to owner occupants of newly constructed homes. We are doubtful as to whether trustee institutions can wisely use savers' and investors' funds in making such high-percentage advances unless additional and substantial safeguards are provided. Variations in appraisal judgments, economic conditions, shifting districts, absence of city zoning and planning, taxes as prior liens, foreclosure delays and expenses, depreciation, obsolescence and the like, make such loans hazardous for the institutional lender.

Much is said of the experience in Great Britain, where building societies (savings and loan associations) make 90-percent loans. This is true, but the builders and those who immediately profit in the building transaction margin those loans with cash or securities and co-sign or endorse their repayment down to a normal 75 or 80-percent advance. This means that those who profit from the building and real-estate operations assume a part of the risks attending such abnormal financing. In the F. H. A. proposal, the losses are to be assumed in part by mortgage-lending institutions, but, in the main, by the mutual-mortgage fund and the Treasury guaranty of its securities. If it is desirable to give 90-percent financing to the citizen who builds or buys a home for his own occupancy, we suggest that British experience be followed and that other parties to the transaction be required to share the risks and responsibilities of 90-percent advances, rather than realizing their profits and stepping out of the transaction, leaving the owner, the thrift institution, and the Government all the risks of loss. It does not seem unfair to ask those who substantially and immediately profit to leave a modest portion of their profits in the transaction for the protection of the lender and the Government. Further there would automatically be a more careful selection of purchasers, an influence for better construction, and a continuing interest on the part of the builder or real-estate operator. We therefore propose that the builder or real-estate operator endorse this paper until it is paid down to 75 percent of the original appraisal and also place in a builders' pool or deposit 5 percent of the original appraised value. Stated briefly, this would achieve the President's objective of a 90-percent loan to the home owner and, at the same time, a reasonable added protection would be required for the financial institution and the Government in connection with these high-percentage risky advances.

We further feel that the President's message proposes that such loans be made to facilitate the construction of homes for people of small or moderate incomes, but still above the lowest-income group (which are to be assisted through the subsidized and slum-clearance housing under the United States Housing Act of 1937). A $5,400 loan for this medium-income group is higher than necessary in the smaller cities and too low for some of the larger cities.

We therefore propose the following two amendments to section 7:

> *Section 7, page 4, line 6*, of H. R. 8520 and S. 3055 is amended by striking out the figures "$5,400" and inserting in lieu thereof the words and figures "*$4,500 to $7,200, depending on and varying with the size of the town or city and the prevailing cost of providing homes for persons of low or moderate income, to be prescribed in rules and regulations by the Administrator.*"
>
> *Section 7, page 4, line 17*, of H. R. 8520 and S. 3055 is amended by adding at the end of said section the following additional language:
>
> "*In all cases where mortgage insurance is applied for in an amount in excess of 80 per centum of the appraised value of the property the applicant shall submit an agreement in form satisfactory to the Administrator, executed by the building contractor, a building material dealer, real estate developer, or any other person, firm, or corporation immediately profiting from such building transaction, effectively binding such person, firm, or corporation to cosign or endorse such loan over and above 75 per centum of the original appraised value, and binding such person, firm, or corporation to deposit in cash or securities acceptable to the Administrator and approved by the mortgagee an amount equivalent to 5 per centum of such loan with the approved mortgagee to secure such agreement, and final mortgage insurance shall not be granted in such cases until there had been compliance satisfactory to the Administrator.*"

[2] Material italicized in amendments indicates changes or additions to existing law.

Section 9, page 5.—No amendment is formally offered to this section. Attention is directed to the fact that the Government will undoubtedly be subsidizing the insurance or guaranty of private mortgage debts through the change in the premium arrangements. The premiums are to be determined on diminishing balances of the mortgage, rather than continuing on the original principal. This will cut by half the premium income of the F. H. A. on guaranteed mortgages. Further, a quarter of 1 percent premium on diminishing balances is proposed, as regards the 90 percent new construction loans, a decrease of 75 percent in premium income to the F. H. A. mutual-mortgage fund. It does not seem logical that, if one-half of 1 percent premiums are needed to insure or guarantee 80 percent mortgages, that one-quarter of 1 percent will protect the Government on 90 percent risks. It is clear that this adjustment in premiums further puts the insurance on a subsidy basis, as the expenses of the F. H. A. promotion and operation to date have been many times the income from premiums. As near as we can discover from published reports, the premium income and appraisal income under title II is less than $6,000,000, while the F. H. A. has drawn from the R. F. C. over $51,000,000 for its promotion and expenses (including title I, and $10,000,000 originally allocated to the mutual-mortgage fund). Of the mortgage volume in the last 2 or 3 years only approximately 20 percent has been insured or guaranteed under the F. H. A. plan, only a small percentage of the financial institutions have made insured mortgages and, finally, nearly two-thirds of the F. H. A. insured or guaranteed mortgages have been made by commercial banks (both State and national). Many financial institutions have felt that if the mortgage was a sound loan and a good risk that insurance was not needed and if it was a doubtful loan, it should not be made regardless of the partial guaranty.

New section 9a.—Great misunderstanding on the part of the public has surrounded the operations of title II, F. H. A., as regards costs to the borrower. Instead of the much-advertised and publicized 5 percent, the cost to the borrower has run 6.4 and up. Financial institutions whose prevailing rates were equal or lower were placed in the difficult position of explaining that the Government-insured mortgages involved costs to the borrower in excess of 5 percent. The full facts were not publicized or understood by the public. Community thrift institutions, such as savings, building, and loan associations, must reasonably meet competitive situations and must survive on the basis of their ability to render a fair-priced and a better service than their competitors. We believe that the public interest would be served and fair-business practice maintained if appropriate statutory requirements were made providing for the full disclosure and recording of all costs involved in an F. H. A. insured mortgage.

The following amendment proposes procedure for the F. H. A. which will eliminate one of the most discouraging competitive features, as far as insured mortgages are concerned:

> Immediately following section 9, add the following new and additional section 9a:
>
> "SEC. 9a. Subsection (d) of section 203 of title II of the National Housing Act is amended to read as follows:
>
> "'(d) The Administrator is authorized and directed to make such rules and regulations as may be necessary to carry out the provisions of this section. *Such rules and regulations shall prescribe the interest rate, the insurance rate, and the fees or other charges for commission, brokerage, initial service charge, appraisal, title, and any other fee or charge permitted by such rules and regulations to be made against the mortgagor by Federal Housing Administration, the approved mortgagee, or any other person, firm, or corporation. Upon the closong of each insured mortgage or mortgage upon which application for insurance is to be made a full and clear statement of the interest, insurance, service, commission, brokerage, repayment penalty, fees and any other charges paid or to be paid by the mortgagor shall be prepared and signed by the mortgagee and furnished to the mort-*

gagor, and a signed copy of the same shall be furnished to Federal Housing Administration with the final application for mortgage insurance. The interest rate on insured mortgages shall not be published without publication of the total cost to the borrower of such insured mortgage by a statement of the total effective cost of the money to the borrower, including all items, or by a statement of such items.' "

Section 11, page 9.—No formal amendment is offered to this section. It is important because it makes permanent the policy of issuing debentures fully and unconditionally guaranteed as to principal and interest by the United States Government in exchange for defaulted mortgages and the transfer of such real estate to the Government. This proposal would seem to admit that the insurance or guaranty of mortgages cannot succeed as originally proposed unless lenders are assured of Government bonds in exchange for defaulted mortgages.

Section 20, pages 14–15.—It would seem desirable to grant as much opportunity as possible to reduce the liability of the Government on these guaranties of private debts. This section provides for the termination of the insurance in case a mortgage loan is repaid or foreclosed (without conveyance to the Government). As the insurance runs primarily for the benefit of the lender, it would seem proper to provide by statute that the mortgagor and the mortgagee might drop the insurance or guaranty of the mortgage if the lender was willing to carry the risk without insurance.

The following amendment is therefore offered:

> *Section 20, page 15, line 8 of S. 3055 and line 10 of H. R. 8520* is amended by the addition of the following language:
>
> "*Upon the joint request of the mortgagor and the mortgagee made to the Administrator in writing the mortgage insurance with respect to such mortgagee and such mortgagor shall terminate and the obligation to pay the annual insurance premium charge shall cease and all rights of the mortgagor and the mortgagee under sections 204 and 205 shall terminate.*"

Section 22, page 16–28.—No formal amendment is offered to this section. The section completely rewrites the present section 207, which is now by statute confined to housing for "persons of low income." This general restriction is removed from the statute and 80-percent loans are to be insured or guaranteed by the Government on properties with a value not to exceed $1,200 per room, with all matters of rent, sales charge, capital structure and the like, to be determined by the Administrator. (See subsec. (b), (1) and (2).)

In subsection (e), $1,000,000 of funds which have arisen from appraisal fees paid by individual home owners are to be transferred, to be used as a revolving fund for carrying out section 207 in guaranteeing mortgages for the building of apartment and rental properties. If this $1,000,000 fund is not adequate to pay losses, the Secretary of the Treasury is committed to make necessary expenditures.

The theory of the insurance or guaranty is that the Government (F. H. A.) shares or takes part of the risk of the lender. Apparently, under subsection (f) the lender on large-unit projects is not required to risk any of his advance in the case of a default resulting from an unwise building venture or a business recession. The insurance or guaranty of benefits to corporations, etc., building large-unit apartment or rental housing under the pending legislation is more liberal than that made available to individual mortgages on homes. For example, the effect of the section is to cause Government-guaranteed debentures to be issued to the lender almost immediately on default, with the Government, through the Administrator, assuming full responsibility and undertaking the foreclosure action. The debentures issued to the lending institution cover all its loan and outlays. Again, these debentures, as provided in subsection (g) are fully and unconditionally guaranteed as to principal and interest by the United States. It would seem that this strong support of construction of rental and apartment housing by Government might, in the long run, adversely influence the American ideal of home ownership. To a certain extent, it means that Government credit or Government underwriting is being placed extensively behind building ventures designed essentially for private profit and of an ordinary business nature.

It should be noted in subsection (i) that the Administrator not only acquires possession of and title to the property before instituting foreclosure proceedings, but is obligated to refinance the project, even though the original lender has received his Government debentures and is entirely out of the transaction. It should be noted that no minimum premium or maximum interest rates apply to this section as exist in the case of the home mortgages. Coupled with the proposals as regards national mortgage associations, practically direct Government financing on apartment projects is accomplished.

Section 25, page 28.—This section likewise is designed to finance the construction of multifamily dwellings or groups of not less than 25 single family dwellings, which will also give strong Government support to the financing and construction of multifamily or apartment dwellings. The guaranties are supported by debentures to be guaranteed by the United States.

Section 26, page 32.—Revises in part title III, which provides for national mortgage associations. No such discount or wholesale associations have been organized under the present legislation, even though the R. F. C. has offered to furnish a portion of the capital. We feel that the organization of one or more national mortgage associations by the Government, using exclusively Government capital, is a direct advance or expansion in Government-lending activities. We are opposed to the creation of any such organizations to function in the small mortgage field now served by savings, building, and loan associations and other private or community thrift institutions. The Federal home-loan bank system, in which nearly 4,000 building and loan associations and a limited number of savings banks and insurance companies have invested over $31,000,000 in capital and whose 12 banks have successfully entered the capital market recently to the extent of $75,000,000, represent adequate Government provision in the small-mortgage field. Whether such national associations are needed to make or purchase the large-unit mortgages created under sections 207 and 210 is for the Congress to decide, but we are unqualifiedly opposed to the establishment of these organizations with Government capital to duplicate and intrude upon the activities of the 12 Federal home loan banks.

We therefore suggest the following amendment:

> *Section 26, page 32*, strike out all of subsection (1), lines 10–20 of S. 3055 and lines 12–22 of H. R. 8520, and insert in lieu thereof the following:
>
> "*(1) to make, purchase, and sell mortgages or securities authorized to be insured under sections 207 and 210 of this Act;*"

National mortgage associations are not needed to protect the liquidity of commercial banks making F. H. A. guaranteed mortgages, as present statutes permit the Federal Reserve System wide latitude in making advances to members on insured mortgages.

Sections 27, 28, and 29, pages 32–35 of S. 3055 and 33–35 of H. R. 8520.—The significant changes from the present statute are that national mortgage associations can be started by placing 25 percent of the present $2,000,000 minimum capital in mortgages, rather than cash or Government securities. Furthermore, it is provided that obligations may be issued to 20 times the amount of capital and surplus. This is a 5-percent margin on very long-time securities, which seems hardly conservative.

These broad provisions are even more significant in light of the sweeping and complete tax exemptions provided for these organizations and the securities which they issue from all State, county, or municipal taxation. It is further proposed that these national mortgage associations and the securities which they issue be exempted from Federal taxation. This would make them very similar in status to the joint-stock land banks which functioned in the farm field. Such tax exemptions seem hardly appropriate for mortgage companies privately managed and operated for private profit. We are most anxious that the activities of national mortgage associations be concentrated in the large-unit field, if it is necessary to authorize them at all. Frankly, we would much rather see the R. F. C. purchase some of the large-unit obligations guaranteed under sections 207 and 210, if Government funds are needed at this time for large-unit construction. Later, the necessity of additional Government-sponsored mortgage companies, as contrasted with the private-trustee institutions or organizations developed solely with private capital, could be determined.

Section 35, page 38.—This section provides for the renewal of title I of the National Housing Act. It is the desire of savings and building and loan associations to support and participate in the activities under title I. As it is difficult or impossible to adapt our lending arrangements to those which are followed by commercial banks and finance companies, we urge that an amendment be included clearly declaring a legislative policy with regard to participation of savings and loan associations and like institutions. In light of our experience with the regulations and our difficulties in functioning under title I, and our splendid loss record, as far as the Government guaranty was concerned, we are most anxious that this matter be dealt with in the legislation. We do not advocate the Government assuming the losses incurred in the financing of refrigerators and other appliances.

The amendment is as follows:

Section 35, page 39, line 5 of S. 3055 and line 9 of H. R. 8520 are amended by the addition at the end thereof within the quotation marks of the following:

"The Administrator shall provide by regulation for the insurance of loans under this title, made for the repair, modernization, and improvement of real estate, repayable on an amortized basis, insured for a period not exceeding five years, and on a basis so that such loans may be made by savings and loan associations and similar institutions consistent with the law under which such institutions operate."

AMENDMENTS TO FEDERAL HOME LOAN BANK ACT, HOME OWNERS' LOAN ACT OF 1933, TITLE IV OF THE NATIONAL HOUSING ACT, AND THE FEDERAL RESERVE ACT

The amendments which follow are proposals which have been considered by committees and official bodies of the United States Building and Loan League. Their inclusion in the pending S. 3055 and H. R. 8520 is urged on the ground that their enactment will permit our institutions which are members of the home-loan bank system or which have their shares insured, to better cope with the competitive aspects of mortgage business created by the new legislation, particularly as regards rates, and also assist our home-loan bank system and our institutions in continuing the expansion of home-financing activities. We believe that with these amendments, in addition to the suggestions previously made, we can do a useful part in financing the ownership, repair, and building of homes and small multifamily properties at this time.

Section 38 (a new section to be added to pending bills).—This amendment revises the definition of "home mortgage" in the Federal Home Loan Bank Act, and would permit our home-loan banks to accept as security for advances to member institutions mortgages on dwellings housing more than four families. A concluding sentence in the amendment is a technical change which is needed in connection with determining the amount of stock subscription required of member institutions.

The amendment is as follows:

SEC. 38. Subsection (6) of section 2 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"(6) The term 'home mortgage' means a mortgage upon real estate, in fee simple, or on a leasehold (1) under a lease for not less than ninety-nine years which is renewable or (2) under a lease having a period of not less than fifty years to run from the date the mortgage was executed, upon which there is located or to be immediately built a dwelling or dwellings for not more than four families, *or for more than four as determined by the board,* and shall include, in addition to first mortgages, such classes of first liens as are commonly given to secure advances on real estate by institutions authorized under this Act to become members, under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby. The *term 'home mortgage' shall not include farms, ranches, and other property whose value arises principally from its nonresidential use.*"

Section 39 (a new section).—This section is pointed toward precisely the same objective as the preceding amendment and deals with the loan section of the Home Loan Bank Act, while the preceding amendment deals with the definition section. This amendment permits home-loan banks to accept mortgages up to $30,000 or even higher, if permitted by the Federal Home Loan Bank Board. It complements and is necessary to carry out the principle of permitting home-loan banks to encourage their member institutions to go somewhat beyond the field of home mortgages:

SEC. 39. The first two sentences of subsection (b) of section 10 of the Federal Home Loan Bank Act, as amended, are amended to read as follows:

"(b) No home mortgage shall be accepted as collateral security for an advance by a Federal Home Loan Bank if, at the time such advance is made (1) the home mortgage loan secured by it has more than twenty years to run to maturity, or (2) the home mortgage exceeds *a figure fixed by regulations of the board, which figure shall not be less than* $30,000, or (3) is past due more than six months when presented, unless the amount of the debt secured by such home mortgage is less than 50 per centum of the value of the real estate with respect to which the home mortgage was given, as such real estate was appraised when the home mortgage was made. For the purposes of subsection (a) the value of real estate shall be as of the time the advance is made and shall be established by such certification by the borrowing institution, in accordance with the regulations of the Board."

Section 40 (a new section).—The home-loan bank system serves more than 4,000 local thrift and home-financing institutions and is steadily expanding. It is now issuing securities which have been well accepted in the financial markets although they are shorter-term securities than should be issued in the future. In order to assist this system in issuing longer-term securities, it is desirable that a portion of the authorized bonding authority of the H. O. L. C. be made available to the bank system to support its financing if necessary. The fund is needed not for immediate use but as an alternative or psychological support to the general money market in case of depression or a stringent money situation. The existence of such an authorization would also have a favorable bearing on the cost of the funds which the system will be obtaining from the general money market from time to time. A $200,000,000 fund seems an appropriate and modest request, in comparison with the $2,000,000,000 fund which stands back of the farm land banks.

The amendment does not change the substance of the present section, under which over $200,000,000 have been invested by the Corporation primarily in shares of Federal savings and loan associations, but permits the Treasury and the H. O. L. C. Board to act should a financial crisis develop.

The amendment is as follows:

SEC. 40. Subsection (n) of section 4 of the Home Owners' Loan Act of 1933, as amended, is amended by the addition of the following language:

"Of the total authorized bond issue of the Corporation, $200,000,000, with the approval of the Secretary of the Treasury, shall be available for the purchase of bonds, debentures, or notes issued under section 11 of the Federal Home Loan Bank Act, as amended; and any funds realized by the Corporation from the sale of such investments made under the provisions of this subsection may be reinvested by the Corporation at any time in said bonds, notes, and debentures."

Section 41 (a new section).—The Home Owners' Loan Act provided for the chartering of Federal savings and loan associations and conversion of existing institutions into such associations. With the emphasis that is apparently going to be placed on large-unit properties, it is our recommendation that these associations be permitted to invest 30 percent of their assets in such advances, rather than the present 15 percent. Also, in this amendment the language is clarified with regard to investment in securities other than mortgages. Under this language, the associations will be permitted to purchase securities approved by the Board, which securities would not only contribute to the liquidity of the institution, but which might also permit the associations to purchase partial interests in mortgages made under sections 207 and 210, as amended by the pending legislation, and such other securities as might be approved by the Federal Home Loan Bank Board.

The amendment is as follows:

SEC. 41. Subsection (c) of section 5 of Home Owners' Loan Act of 1933, as amended, is amended to read as follows:

"(c) Such associations shall lend their funds only on the security of their shares or on the security of first liens upon homes or combination of homes and business property within fifty miles of their home office: *Provided,* That not more than $20,000 shall be loaned on the security of a first lien upon any one such property; except that not exceeding *30* per centum of the assets of such association may be loaned on improved real estate without regard to said $20,000 limitation, and without regard to said fifty-mile limit, but secured by first lien thereon: *And provided further,* That any portion of the assets of such associations may be invested in obligations of, *or guaranteed as to principal and interest by,* the United States, the stock *or obligations issued pursuant to the Federal Home Loan Bank Act, obligations of the Federal Savings and Loan Insurance Corporation, or in other securities approved by the Board: And provided further,* That any such association which is converted from a State-chartered institution may continue to make loans in the territory in which it made loans while operating under State charter."

Section 42 (a new section).—Litigation is now pending which questions the right of the Federal Government to charter thrift and home-financing institutions by challenging the constitutionality of that portion of the Home Owners' Loan Act of 1933, which provided for Federal savings and loan associations. While

the district court decision has been favorable, appeal has been made by officials representing the State of Wisconsin and it is important that over 1,200 Federal savings and loan associations have a statutory vehicle for returning to State jurisdiction if the higher courts reverse the lower-court decision. Further, with the Federal Government inviting the conversion of State institutions to Federal ones, it seems only proper that provision be made for Federal institutions to become State-chartered ones under State supervisory authorities if their members so desire.

The amendment is as follows:

> SEC. 42. Section 5 of the Home Owners' Loan Act of 1933, as amended, is hereby amended by inserting after subsection (i) a new subsection to read as follows:
>
> "(j) *Any Federal savings and loan association may convert itself into a State-chartered savings and loan association or mutual savings bank upon a vote of 51 per centum or more of the votes cast at a legal meeting called to consider such action: such conversion shall be subject to the laws of the State in which the institution is located and shall be consummated only upon acceptance of the institution by the State under such terms and arrangements as the State statutes and the supervisory authorities of the State prescribe. Upon completion of such conversion, the association shall no longer be subject to the rules and regulations or examination by the Federal Home Loan Bank Board, but institutions having Government funds invested in their shares may not convert without the assent of the Federal Board.*"

Section 43 (a new section).—The home-loan banks have member institutions with assets of approximately $4,000,000,000. These member institutions depend on the home-loan banks for both long-term capital and for emergency funds should a period of financial stress arise. In order to strengthen the general financial picture in emergency periods and permit the Federal Reserve banks to extend the same accommodations to the 12 home-loan banks which the Reserve banks may now extend to the intermediate-credit banks, similar provisions are urged as additions to section 13a of the Federal Reserve Act. These additions are important if the home-loan banks are to expand their usefulness and are to properly support their member institutions should a period of deflation and withdrawals develop.

> SEC. 43. Section 13a of the Federal Reserve Act, as amended, is further amended by adding the following two new sections:
>
> "Any Federal Reserve bank may, under rules and regulations not inconsistent herewith prescribed by the Board of Governors of the Federal Reserve System, buy debentures of bonds issued pursuant to the provisions of section 11 of the Federal Home Loan Bank Act, as amended.
>
> "Any Federal Reserve bank may, subject to regulations not inconsistent herewith prescribed by the Board of Governors of the Federal Reserve System, make loans to Federal home-loan banks upon the security of notes or notes secured by mortgage or other real-estate lien taken by such Federal home-loan banks pursuant to the Federal Home Loan Bank Act, as amended, and any Federal Reserve bank is authorized to rediscount such notes and notes secured by mortgage or other lien on real estate with the endorsement of such Federal home-loan banks."

Section 44 (a new section).—In connection with the insurance of share accounts there has been much complaint about examination costs and duplicating examinations. State superivsory officials are particularly concerned over the question. It is believed by our people that the Insurance Corporation can absorb the cost of such examinations as they find necessary out of the annual insurance premium. This is done in the Federal Deposit Insurance Corporation and we urge that this precedent be followed as regards institutions under the Federal Savings and Loan Insurance Corporation. The Corporation now has $110,000,000 in capital and reserves and its premium income seems much more than necessary to pay examinations and still steadily accumulate adequate reserves.

The amendment is as follows:

> SEC. 44. Section 403 of the National Housing Act is hereby amended by adding the following new and additional subsection (e):
>
> "(e) *The Corporation, out of its insurance premiums, shall pay for all regular examinations to which insured institutions are subjected by the Insurance Corporation. This does not apply to examinations prior to insurance or special examinations arising in cases of default, defalcations, and like unusual circumstances.*"

Section 45 (a new section).—This amendment is a companion amendment to the previous proposal. We are certain that the risk assumed in the insurance of accounts in savings and loan associations, due to the limited guaranty, is not nearly as great as those assumed by the Federal Deposit Insurance Corporation in the insurance of bank deposits. The statute requies the building of substantial reserves by insured institutions as well as requiring many precautions limiting the insurance risks assumed by the Insurance Corporation. Also, there is an assessment feature not found in the Federal Deposit Insurance Corporation, through which institutions may have to pay an additional one-eithth of 1 percent per annum, if required by the Federal Savings and Loan Insurance Corporation for expenses and losses. The reason that we ask that the insurance premium be reduced at this time is the difficulties our institutions encounter in meeting constantly falling interest rates and, at the same time, in paying a sufficient return to savers and investors to attract capital. It is roughly estimated, omitting the one-eighth of 1 percent premium assessment feature, and including compulsory allocations to reserves, plus cash premiums, plus examination charges, that it is costing many institutions almost three-eighths of 1 percent per annum to have their accounts insured.

We therefore offer the amendment making the premium for the insurance of accounts of thrift and home-financing institutions one-twelfth of 1 percent, the same as the Federal Deposit Insurance Corporation premium for commercial banks:

> SEC. 45. Section 404 (a), (b), and (c) of the National Housing Act is hereby amended by striking out the words "one-eighth of 1 per centum" and inserting in lieu thereof the words "*one-twelfth of 1 per centum*".

Section 46 (a new section).—This is a second companion proposal in making the insurance of accounts more attractive to thrift and home-financing institutions and their investors. It deals with the payment of insured-account holders in the case of liquidation of insured institutions. At present the investors receive immediately 10 percent cash and non-interest-bearing debentures maturing in 1 and 3 years for the balance of their accounts. This feature of the insurance has given rise to many critical comments from competitors and it is felt that it unnecessarily decreases the attractiveness of the insurance of accounts. Presumably, the 45 percent of a $5,000 account which was paid in 3 years would bring the investor only 80 or 85 percent of his investment if he sold his non-interest-bearing security. We therefore propose to authorize payment of 2 percent on the 1- and 3-year debentures.

The amendment is as follows:

> SEC. 46. Subsection (b) of section 405 of the National Housing Act, as amended, is amended to read as follows:
>
> "(b) In the event of a default by an insured institution the Corporation shall promptly determine the insured members thereof and the amount of each insured account, and shallmake available to each of them, after notice by mail at his last-known address as shown by the books of the insured institution and upon surrender and transfer to the Corporation of his insured account *free and clear of any lien or other encumbrance*, either (1) a new insured account in an insured institution not in default, in an amount equal to the insured account so transferred, or (2) at the option of the insured member, the amount of his account, which is insured under this section, as follows: *At least 10 per centum in cash; and one-half of the remainder in negotiable debentures of the Corporation payable within 1 year from the date of default, bearing interest from such date at the rate of 2 per centum per annum; and the balance in negotiable debentures of the Corporation payable within 3 years from the date of default, bearing interest from such date at the rate of 2 per centum per annum.* The Corporation shall furnish to each insured institution a certificate stating that the insurance of accounts in such institutions is to be paid in the manner described in this subsection."

Section 47 (a new section).—Hundreds of successful State-chartered savings and loan associations have not insured their accounts because of apprehensions regarding dual regulation and supervision. Further, the 3-year-premium penalty in the statute and regulations of the Federal Home Loan Bank Board have made it rather difficult, if not impossible, to withdraw from the insurance if the institution, its board, or its members, so desire. At present an institution withdrawing must pay 3 years of penalty premiums, during which interval its account holders are not insured. We propose that a withdrawing institution pay 1 year penalty premium and that the accounts remain insured during that year. This could be

accomplished by the following amendment, which is sort of a third companion amendment to make the insurance more popular and effective and thus assist the whole thrift and home-financing movement of the building and loan type. This amendment will substantially increase the acceptance of the insurance by State-chartered institutions. It is now compulsory for Federals.

SEC. 47. Section 407, subsection (a), of the National Housing Act is hereby amended to read as follows:

"Any institution which is insured under the provisions of this title may, upon not less than ninety days' written notice to the Corporation, terminate its status as an insured institution upon a majority vote of its shareholders entitled to vote, or upon a majority vote of its board of directors or other similar governing body which is authorized to act for the institution. In the event of such voluntary termination of the insurance of accounts, such insured institution shall pay one additional annual insurance premium as is provided by subsection (a) of section 404 and the insured accounts in such institution, to the extent of the amount paid in and credited thereto upon such date, shall remain insured to the end of the period for which such premium is paid."

As a concluding comment, there are no proposals in the pending legislation that indicate Government policy or procedure in dealing with the question of building costs. It should be recorded that capital or interest costs are the only costs in connection with construction which have substantially decreased in the post-depression period. It would seem that if the drive to lower financial charges and to increase the percentage, term, and risk of mortgages is to continue that policies and procedure as regards the other costs should be embodied in the legislation. The British housing boom took place under conditions of reasonable and falling costs, complete confidence of the British public in the economic situation, and during its first dozen years under conventional 6-percent interest rates to the capital of thrift or savings institutions financing the home building.

With the above amendments savings, building, and loan associations will be able to cooperate with titles I and II of the Federal Housing Act and, at the same time, carry on and expand their regular business of financing the building, repair, and buying of homes in increasing volume.

Mr. BODFISH. Mr. Chairman, I am executive vice president of the United States Building & Loan League. This league briefly is an organization of the cooperative thrift and home-financing institutions scattered in every State in the Union. These institutions are engaged exclusively in the financing of the building, buying, and owning of homes. There are some 4,300 individual institutions in our organization, some 47 State leagues, involving about $5,000,000,000 of capital, all invested in home mortgages.

Mr. Chairman, I think this morning I could be most helpful to the committee by directing my remarks and suggestions directly to the bill. I think we have had adequate discussion of the general situation that prevails with regard to house building at this time. We have also had testimony which indicated that there was some doubt as to whether any immediate or startling revival of building would take place based exclusively on the financial changes in the F. H. A. which are suggested in this legislation.

The simple and basic problem with which all of us are struggling at the moment is the fact that rents are somewhat low and the public is finding it more profitable, more advantageous, to rent or purchase existing properties than to build new properties. We feel that that situation is on the mend, but until that general situation does shift you will not have a great volume of building.

We are not appearing, gentlemen, in opposition to the bill. There are some rather important items in the bill on which we want to suggest changes; there are one or two sections in which we find ourselves in strong disagreement. In the main, our suggestions are pointed to an attempt to suggest items or amendments to you gentlemen that will permit our institutions to enjoy more active operation

and to support the general objectives which the President set forth in his message, in which we all agree in this country, in regard to employment.

The first section of the bill that I want to make any comment on is section 5, which you will find starts on page 2, but I want to direct my remarks particularly to page 3. I have given to the clerk of the committee a mimeographed statement which includes the amendments. The first two pages are merely a general statement, but if you will turn to the third page you will find the specific amendment that I desire to discuss.

The President in his message suggested that the volume of insured mortgages under the F. H. A. scheme be limited to $2,000,000,000; in other words, that the liability of the Government in regard to the issuance of Government-guaranteed bonds in exchange for foreclosed real estate be confined to that amount. I would call your attention first, that in the draft of the bill as in the original legislation, that limit is subject to change at any time by Executive order.

The more important thing is the question of a July 1, 1939, date, at which time, as was proposed in the President's message, although the date was not set in the message, it is suggested that the F. H. A. retire from its activities in guaranteeing or insuring existing mortgage debt, and concentrate its time, energy, and efforts on the insurance of new construction exclusively.

Some months ago we suggested to the F. H. A. officials, in fact urged, that they confine their publicity and their field efforts and their activities toward insuring loans for new construction, with all its implications as regards employment, and the like. In support of our suggestion, which is that the F. H. A. retire from insuring existing debts on January 1, next year, I would say that witnesses have pointed out that the F. H. A. has now insured approximately a billion dollars in mortgages, which would mean that under the $2,000,000,000 concept in this bill, and in the President's message, that it will only be in position to insure an additional billion.

We feel, as I will develop later, that the insurance rates proposed under this legislation are of subsidy character, that the activities in the F. H. A. are being very generously supported by the Government, and that if there is a justification for a subsidy and outlays from the Federal Treasury in great amount in conducting this activity, it certainly should be directed exclusively toward insuring or guaranteeing mortgage loans which result in employment.

We feel that is a very important matter. I do not have any disposition to avoid discussing with the committee why we consider it an important matter. We in the thrift institutions have a real problem of maintaining a substantial mortgage volume.

Mr. GOLDSBOROUGH. Mr. Bodfish, I think your contention is good financially from the standpoint of the building and loan association, but if it is legitimate to embark on the question of fairness I think it would be well to suggest that the Federal Government bailed out the building and loan associations very generously and has been very kind to building and loan associations. Do you not think so?

Mr. BODFISH. I want to say, Mr. Goldsborough, without any hesitation at all, that the Federal Government has been extremely fair, has been extremely generous, in its treatment of these corporative institutions. I want to say also that if the drive to force the returns

on the investments in these cooperative institutions down and down continues too far, it is possible that we may substantially and seriously injure the type of community institution which has built the homes of America

Mr. GOLDSBOROUGH. The purpose of insuring mortgages that now exist is to save the homes of those who have mortgages they cannot pay off or refinance. That is the purpose of it. Now it seems to me that when you are legislating, the one thing we ought to bear in mind is the home owner.

Mr. BODFISH. That is right.

Mr. GOLDSBOROUGH. Proceed

Mr. BODFISH. Mr. Goldsborough, I do not quite see how the shifting of a mortgage, let us say, from the portfolio of a building and loan association to the portfolio of a commercial bank, unless it involves substantial advantage to the home owner, does anything to save anyone's home. I think it is a quetion of merely shifting an existing existing credit transaction; no additional mortgage credit is created.

In order to show the exact volume of new-construction mortgages on homes insured under title II of the F. H. A., I have summarized from their published reports the statements and figures covering a period of practically 3 years This shows a total of mortgages "accepted for insurance" of $960,000,000. "Accepted for insurance" does not mean insured, however, as the premium income figures appearing in F. H. A. reports would indicate that there is about a 25-percent shrinkage from the figures published as "accepted for insurance" to those which are actually insured. As near as I can estimate, the F. H. A. in 3 years has actually insured about $700,000,000 in mortgages, of which about two-thirds was the refinancing of existing debts. It should be noted in the table that the volume of mortgages "accepted for insurance" in the third quarter of 1937 was less than for the same quarter of the previous year and substantially less than the second quarter of the present year.

Home mortgage insurance operations of the Federal Housing Administration

	Mortgages accepted		
	Refinancing	New construction	Total
1935	$110,346,608	$60,248,256	$170,594,864
1936:			
First quarter	43,536,580	19,204,683	62,741,263
Second quarter	74,588,868	43,253,269	117,842,137
Third quarter	77,323,817	52,858,007	130,181,824
Fourth quarter	76,106,703	51,577,226	127,683,929
1937:			
First quarter	62,634,915	40,668,185	103,303,100
Second quarter	82,813,181	57,615,035	140,428,216
Third quarter	68,292,000	41,580,300	109,872,300
Cumulative total	595,642,672	367,004,961	962,647,633

Mr. GOLDSBOROUGH. But if the mortgage is insured the lending institution would naturally be more lenient toward the home owner than otherwise. That is the point.

Mr. BODFISH. Mr. Chairman, I do not want to linger unduly on the point, but I would like to make one comment on that particular suggestion. Some of us who studied the F. H. A. operation carefully

as to its regulations and its policies sincerely believe that the leniency that may or will be extended to the home owner will be diminished rather than increased. Your regulations under your F. A. H. at the present time practically force the mortgagee to proceed quickly with his foreclosure, otherwise he risks losing the insurance protection which the Government has made available. The insurance protection does not protect the borrower. The insurance protection is for the protection of the financial institution, and you will find that with the exception of permission from Washington, and the like, a mortgagee must proceed to foreclosure within 60 days in order to not jeopardize the status of his insurance.

Mr. GOLDSBOROUGH (acting chairman). Of course that is true, but you say the "permission from Washington, and the like." Well, he can get permission from Washington "and the like." That is just the point.

Mr. BODFISH. There is another point that seemed rather apparent to me as I listened to the discussion yesterday. In the main these mortgages, a substantial number of them, are being sold here, there, and the other place over the country, and you have for example a bank in Minnesota that has bought let us say—and I happen to know this is the case—mortgages on homes in Connecticut and other States at a great distance. Now you have lost that intimate and community contact which we think led to great indulgence being extended through the recent depression by the community lending institutions.

Mr. GOLDSBOROUGH. What are you suggesting is the purpose of the language of the bill providing for the insurance of present mortgages, if it is not for the purpose of assisting the home owner? What other purpose would there be?

Mr. BODFISH. I think the frank purpose is to give the F. H. A. a large and substantial volume, and also to impress or to spread the F. H. A. system of Government-guaranteed or Government-insured mortgages upon the lending institutions of the country.

So, Mr. Chairman, our amendment in that connection is this. As the bill suggests retirement on July 1, 1939, we are urging retirement on January 1, 1938.

In passing I would like to call your attention to section 6, which also appears on page 3. The change in the language is rather small from the present language of the act, but if I am not mistaken, that language coupled with other provisions of the act makes it possible for any mortgagee, be it a broker or an individual, to make a mortgage, which mortgage can be insured by the F. H. A. The only reason I raise the question about it has been the fact that the philosophy of the F. H. A. regulations, the statements of those who sponsored the plan, has been that they desired to work with private capital and with existing institutions. I think this language does open the way, or possibly points the way, by merely dropping out the one or two words there, for the F. H. A. to insure mortgages which have been made, without a responsible institution in the community having originated the paper and passed the paper on to wherever it goes. That is not a matter of major importance. I, however, have an amendment which merely suggests as I understand it that the statute have the philosophy and the language of their regulations, and it merely says that it may have been made and held by a mortgagee approved by the Administrator, responsible and able to sponsor the mortgage.

A NEW SECTION 6

Section (1) of section 203 (b) of title II is amended to read as follows:

"(1) have been made and be held by a mortgagee approved by the Administrator as responsible and able to service the mortgage properly."

We say frankly we do not believe in individuals making mortgages and selling them outright to the Government through a national mortgage organization, or any other procedure of that kind. We feel that we have the soundest, the best mortgage structure, if we develop community institutions or financial institutions who are in the community, and with capital largely raised in the community, to fill these needs.

Section 7, which starts on page 3, goes on over to page 4, and is the section which provides for the 90-percent loan. I think in fairness it should be said that the concept of a 90-percent loan is probably a premature one in this country. I am somewhat familiar with the British situation and with the activities of the building societies, who incidentally on that side of the water do about 94 percent of the financing of the homes, and the properties that have been built in the recent housing boom. It is entirely true that 90 and even 95 percent advances are made by those institutions. However there is a very strong protection from the point of view of the lending institution, which is not proposed in this legislation.

In the British situation 90 percent or 95 percent loans are all without exception guaranteed or endorsed, and the endorsements supported by a deposit called a "builders' pool," by all of the building concerns and the real estate concerns who immediately profit from the building transaction. This deposit remains until the loan is reduced to 80 percent. The British building societies, consider 75 or 80 percent their normal loan. There are many reasons on the other side of the water why they can safely make a 75 or 80 percent loan, which do not prevail on this side of the water. For example real estate taxes in Great Britian are not a prior lien ahead of the mortgage, therefore the tax group, the Government, most collect its taxes from the individual, although they are levied on the basis of the rental of the property. Their foreclosure procedure involves only a week or 10 days and only very nominal cost, and a number of other things which are different, so we have two proposals, Mr. Chairman, regarding this section.

We recognize that there is some truth in the suggestion that home purchasers have bought their properties, especially if they were small homes, on a 10 percent down basis, and paid for them if adverse economic conditions did not develop. We do realize that that involves a larger monthly payment than would be present if they paid 20 or 25 percent down, and we really feel out of our experience to date that a person should accumulate more of a nest egg than 10 percent before he embarks on home purchasing. However, we have tried to approach this thing in an entirely cooperative way. We do not think that any public service is rendered by merely reiterating the dangers of 90 percent lending, so we have proposed that, if the British pattern is to be considered and followed, that by amendment to your legislation you ask the real-estate developers and the building-material people and the contractors—those who immediately profit from that transactions—that they co-sign or endorse that paper until it is seasoned down to a 75 percent advance, at which time the institution will carry it alone.

Now I think this is particularly important not only from the point of view of the institution, but it is also important from the point of view of the Government, because you gentlemen are all practical men and you know that with 90 percent loans, the minute that property is occupied for the first time, and the like, its market value is undoubtedly depreciated 5 or 10 percent.

If the person only stayed in there a month it would cost a 3 or 4 percent real-estate commission to sell it, assuming that it would bring the same price.

So we suggest that if we follow the British pattern, asking the Administrator—this appears on page 2 of our amendments—to not grant 90 percent insurance unless some contractor, building material dealer, real-estate developer, or other person, firm, or corporation immediately profiting from the transaction endorses that paper, and also, as they do in Great Britain, makes a deposit under the supervision of the Administrator, say—our tentative suggestion is 5 percent of the appraised value of that property—as security for that endorsement.

I think the 5 percent, in fairness, is a little higher than that typically placed in the builders' pools in Great Britain. Most of the British firms, which are incidentally very large and substantial firms, half a dozen of them build as many as 1,500 to 2,000 houses a year. Their builders' pools or deposits run about 3 percent of the original appraised value.

With that sort of protection, both to the Government in its insuring of this 90 percent mortgage, and to the lending institution in its making of these advances, we are willing to try to fit into the program and try to carry out the President's specification of a 10 percent down payment for the home owner.

As a part of that same section we are also suggesting that the $5,400 insured loan, which means a $6,000 property, is rather an inflexible proposal. A $6,000 house, a new house, a new home in a very small town—I am thinking for example of Coleman, Mich., where I originally came from—a $6,000 town home would be the palace of the town.

On the other hand, a $6,000 home in my present home in the city of Chicago will not, does not include a typical workingman's "bungalow" as we call them, so we are suggesting that the Administrator take the responsibility in connection with these 90 percent loans of varying this insurance so that it would cover a $5,000 dwelling, namely, $4,500 insurance, in the smaller towns and cities, or an $8,000 dwelling in the cities of large population where building costs are higher. Our specific language is—

Any mortgages not in excess of $4,500 to $7,200, depending on the varying with the size of the town or city and the prevailing costs of providing homes for persons of low or moderate wage income, to be prescribed in rules and regulations by the Administrator.

We think that is a sensible provision, and one of the reasons we are interested in it is, we feel that after this legislation is enacted, which we assume it will be, and it is proper to legislate at this time on the subject, the press and the public will be educated that they are all entitled to a 90-percent loan, and we feel that some variation should be introduced into the arrangement to take care of the differences in the cost of providing what we would call "working class"—and when I

say "working class" I mean no reflection of course—working class dwellings in the cities of varying sizes.

Mr. GIFFORD. Mr. Bodfish, may I interrupt you?

Mr. BODFISH. Mr. Gifford.

Mr. GIFFORD. A great deal was said about Britain doing this, and we ought to be able to. You speak of the real-estate taxes not being so great or not being a lien against foreclosure. The fact is, is it not, that the real-estate taxes are very low compared to those that exist in this country? The central government there pays largely for educational institutions. Have you looked into that?

Mr. BODFISH. Yes, sir; Congressman Gifford, I am somewhat informed on the situation. Your real-estate taxes in Great Britain are somewhat lower, I would say maybe half what our real-estate taxes are, on a small home in this country.

Mr. GIFFORD. Never mind that so much. The important question I wanted to ask you is about the labor costs. These large builders manage, do they not, to make a trade with the employee, scattered over a yearly payment of wage, perhaps as has been suggested as desirable, but do you have any hope under this that there would be any arrangement made bringing the costs of labor down?

Mr. BODFISH. Mr. Chairman, of course in fairness, there is no provision of any kind in the bill which points to that sort of policy. There is no vehicle established to move in that direction. The bill is exclusively a financial measure, amending the National Housing Act.

Mr. GIFFORD. But did you look into Britain's method of bringing that about?

Mr. BODFISH. Yes. I am familiar with that.

Mr. GIFFORD. How did they do it over there?

Mr. BODFISH. The British situation, gentlemen, is roughly this: The British housing boom—and I will bring this labor picture into it—started in 1919 and 1921, when the war activities had resulted in no production of homes during the war period from 1914. There also had been a period of about 3 years prior to that in which there had been practically no building in Great Britain of small homes. You may recall the Snowden-Lloyd George budget, which embarked the British Government on the policy of taxation on land values, which stopped the building of small homes for a time, so there was a colossal accumulation of shortage

The Government started the building by direct subisidies in 1919 under this so-called Greenway Act, in which they gave, as I recall, $500 or 100 pounds to anybody that built a house, and under the impetus of that subsidy there was considerable building, but also there were substantial rises in the price of materials—enough so that the Government shifted its policy. Then, starting in the mid twenties, Great Britain as far as housing was concerned continued their building activity under conditions of constantly receding prices. Material prices declined all through the period of the British housing boom, and at the same time labor prices have never been in Great Britain what they are in this country, particularly in the building trades, and as I recall, your labor prices all through that British housing activity remained practically constant. Of course, it is true that firms such as John Laing & Sons, who do colossal amounts of building running into the millions of dollars each year, offer very steady employment to the men that work with them. However, as I recall, they pay in that firm, even with their steady employment, a little more than the trade union rate. So there were agreements, but, as all things are in Great Britain, they were sort of vague or informal and it was not worked out in a statute. Labor was interested in continued employment and depended largely on housing, the Nation was interested in housing, and a very stable situation prevailed as far as labor costs were concerned.

Mr. GIFFORD. You recognize, do you not, that a very little boom will bring a tremendous scarcity of skilled labor right away, that there have been no apprenticeships, practically none for some time, held down by large fees for the formation of unions to guide men along? Why it is an unheard of thing in my section to find an apprentice any more for the trade of mason or carpenter.

Mr. BODFISH. I think if we get any substantial building activity, Mr. Congressman, there will be a real shortage of skilled artisans, without a doubt.

Mr. GIFFORD. And they will demand and maintain their present price, will they not?

Mr. BODFISH. I think the practical situation is yes; of course. There is not going to be an adjusting downward of the costs of building labor, just as a practical matter, and frankly I would not advocate the adjustment downward. You are taking me into a realm here which, just like getting into a family quarrel, it is the fellow that comes in to make peace that always gets hurt the most.

Mr. GIFFORD. There is nothing in this bill, but there was in the President's message, a suggestion that they get together and bring labor prices down on a yearly basis.

Mr. BODFISH. I think the President's message was a very courageous recognition of the fact that it was costs, in part at least, which stopped the volume of building activity which was going on and developing in this country.

Mr. GIFFORD. Do you express to this committee any degree of hopefulness that that can be attained?

Mr. BODFISH. I am a little old fashioned when it comes to the question of diminishing prices. I think the only way to bring the price of groceries down is for the chap who is selling the groceries to have a little difficulty selling them, and if you make it completely easy for them to do, let us say, 100 percent financing of real estate construction I think your prices are apt to move in the other direction, and I think price-raising is one of the policies that some of us wish had been a little different. We have had too much emphasis in this country on raising the prices as contrasted with lowering them and laying the base for wider markets and the production of more goods at lower prices, but that is a broad question on the state of the union that is not dealt with in this bill.

Mr. MCGRANERY. Mr. Bodfish, Mr. Gifford asked you about the real estate taxes of Great Britain. Are you familiar with the general tax structure of Great Britain?

Mr. BODFISH. I would not want to presume to be an expert. I am somewhat familiar with it.

Mr. MCGRANERY. How would it come with our tax situation here?

Mr. BODFISH. Their income tax structure is much higher.

Mr. MCGRANERY. And their inheritance tax structure is much higher?

Mr. BODFISH. Their inheritance and their income, and there is another thing which has a little bearing on this, which we might mention in passing. Let us say here is an English workingman who owns a home. In our country we exact from him as a property owner about 80 percent of the cost of government, where in Great Britain they tax his luxuries. In other words, if he owns a little automobile they charge him $150 or $175 a year for owning it, where we would charge him $10 or $15 for a license, but we put it on his real estate.

There is a whole aggregate of things that have been holding back home ownership rather seriously in this country, in addition to the cost of capital. I am not here to defend usurious or unfair interest rates in any way and I want to say that the costs of capital are the one section or part of the costs of home ownership in this country which have declined substantially in the past 4 or 5 years. We are hoping that the Government will not pursue or press lower and lower rates so far that we dry up the flow of thrift or savings funds into the community institutions, which after all, in my judgment, must be relied upon to finance the buying and building and owning of homes in this country.

I was very interested in Mr. Fleming's testimony yesterday. Here was a $95,000,000 bank, and $4,000,000 in mortgages, half of them F. H. A. That is one-twenty-fifth of his total assets and about 20 percent of his savings deposit department.

The building and loan societies right here in Washington have $100,000,000 loaned on real estate, and I will wager that during the last year they made 20 times the real-estate loans made by the commercial banking institutions. Now, that is not a criticism of commercial banking, but I think one of the vices, or questionable policies that is developing in connection with this legislation, if we are not careful, is that we are enticing, temporarily, in my judgment, some commercial banking capital into the home-mortgage field, which will leave the home-mortgage field the minute there are profitable commercial or industrial investments available. Our theory and thesis is that mortgage banking should be separated from community banking, just as you have separated investment banking, security affiliates, and the like from commercial banking. This general policy, which would strengthen our banking system, involves building up and modernizing specialized thrift and home-financing institutions like savings and loan associations and mutual savings banks. We believe that the property owner and home builder will be better served this way. British experience, which is so often referred to by witnesses on housing matters, points in this direction. In England commercial banks do not engage in mortgage lending nor in the variety of activities which our commercial banks undertake. Specialization in finance and financial institutions is as sound and necessary as it is in industry or the professions.

Of course, we believe that the immediate and long-time public interest will be best served by encouraging and building up cooperative or nonprofit financial institutions whose total assets are placed in the real-estate field. Let us as a matter of public policy consider these institutions in determining the final provisions of this legislation and build up the thrift institutions in this country, who have to invest or bet—and I say "bet" advisedly, because lending money on mortgages for 20 years is becoming a little bit of a gamble in some ways—every dollar of their resources on real-estate securities in the community. That policy has been the source of the success of the financial phase of the British housing situation. Our building and loan institutions over there have grown consistently all through the twenties and up to the present time. The 10 years of the British housing activities prior to 1933 were financed by the building societies on conventional 6-percent rates. It was not until 1933, with confidence at a high tide and ample savings funds flowing into building societies, that the rates were first dropped to 5.5. Now they have been moved on down to 5 percent and 4.5 percent. Instead of trying to push the interest rate down first or instead of Government guaranties or lending, the facts are that the institutions which specialize in furnishing this kind of long-term mortgage capital were built up and became strong. An abundant flow of thrift capital into those British institutions as a result of public confidence made them so large and so strong that they could reduce substantially the costs of capital to the purchasers.

Mr. HANCOCK. Mr Bodfish, what percentage of the mortgage financing done in the United States last year was done by the thrift institutions?

Mr. BODFISH. Our figures reveal that our savings, building and loan associations made about 60 percent of the mortgage loans that were made last year, and of the small or single-family home loans I would think that probably the percentage would be a little higher.

Mr. GIFFORD. Mr. Bodfish, before we get into that I think it is most important, because you brought this up about the danger of Federal assistance to these associations. I want you to tell this committee what the effect has been upon your institutions of this "going Federal," as they call it—Federal savings and loan that we put up here to try to assist places where they had not abundant facilities, now forcing them almost "Federal."

Mr. BODFISH. Mr. Chairman, I could, and of course am willing, to answer the question. It is not dealt with in the bill.

Mr. GIFFORD. I cannot help that. It is the practical fruit of the bill, because it carries out your argument, the danger of forcing your institutions to follow the line of all other things, where the Federal Government is assisting. I think it is very important and very much to the point here.

Mr. BODFISH. Mr. Chairman, Mr. Fleming yesterday—and I am not impatient with Mr. Fleming; he has always been very gracious to me, and we are good casual friends—took a sideswipe at the federally chartered savings and loan associations, and I want to say that there is no more reason why the Federal Government should charter his own bank than there is why it should charter a thrift and home-financing institution.

Federal savings and loans associations number about 1,200; some 600 of them were newly organized, and some of them were not needed in the communities where Federal organizers started them. We had a natural bit of bureaucratic zeal and vigor a couple of years ago, and some charters were granted to new institutions which were not needed, but about half of the Federal associations, Mr. Congressman, represent institutions which have been organized under State charter for years, and which decided, as have many commercial banks in this country, that they would as soon, or maybe rather, operate under the

supervision of the Federal Government as contrasted to the supervision or the restrictive laws of their State governments. I do not regard the chartering of a Federal savings and loan association a Federal Government intervention in the thrift and home-financing business any more than I regard the chartering of the national bank as intervention by the Federal Government in the commercial banking business.

In 1933 Federal charters for thrift institutions were proposed—I mean when H. O. L. C. legislation was prepared for the Congress and the problem was before the advisers of the administration at the other end of the Avenue, of supplying home-mortgage capital in the communities which did not have going thrift institutions. Incidentally, you have a lot of excellent thrift institutions in New England; you have a lot more of them than we have in some other parts of the country. However, the question arose, very properly, as to what the Government was going to do in the communities where the bank was closed, where the building and loan association was frozen, or where even, in the wake of the commercial banking crisis, the thrift institution had failed—and incidentally, we had our problems and they were an aftermath of the commercial banking crisis of the country rather than of our own making in the main. I want to say so far as I am concerned, and as far as most of our people in the thrift and home-financing business or cooperative movement are concerned, that we are pleased that the Federal Government deliberately put its stamp of approval and its influence in the chartering, in the creating of mutual, locally managed thrift and home-financing institutions, rather than embarking upon a direct lending operation for new construction and the like.

I realize there have been irritations in some States. It is perfectly obvious as to why there may have been, because let us say this—let us go up to Waltham, Mr. Luce, for a moment, and there the Waltham Cooperative Bank, which has a splendid record, decides for reasons of its own that it would rather function under a charter from the Federal Government. Well, what happens? You have State supervisory authorities—and I am not criticizing the State supervisory authorities of the State of Massachusetts; it has been the same in other States—who see their scope of influence and activities diminished because this institution is going to go under Federal supervisory jurisdiction. What happens is that you have one of these indirect controversies between the State supervisory authorities and the Federal supervisory authorities in which a lot of bad names are called and everybody gets excited. Basically it is but the question of who is going to be the doctor, between two folks, rather than a basic and careful consideration of what does the patient want, and what is good for the patient, and if you take a mutual home financing institution which is owned by three or four thousand shareholders, and they say, "We would rather operate under the supervision of the Federal Government rather than a State government," I do not think it is any of the State government's concern unless they feel that the supervision of the Federal Government will not fairly protect the savings of those people. We believe also, and there is an amendment here in our proposals, that the institutions under Federal charter, if they want to

go and operate under the supervision of State authorities, instead of under the supervision of the Federal Government, that that should be the privilege of the thousands of savers or members who own and control that financial institution.

Mr. GIFFORD. We were enthusiastic in helping those sections that had no banking facilities. Now, you are trying to talk about supervision. These banks claim—and a half dozen of them very much alarmed came to Washington in a body and opposed granting the savings and loan this "going Federal" and forming a branch institution. They claim if there was a place the Federal Government had provided where they could take over their securities and help them financially they could loan money half of 1 percent cheaper than the present set-up.

Mr. BODFISH. Mr. Chairman, I do not want to dwell at length on it, but there has not been a single facility of any kind accorded a federally chartered savings and loan association that has not been accorded equally to a State-chartered cooperative bank or thrift and home financing institution.

Mr. GIFFORD. You are giving them a 1-percent advantage?

Mr. BODFISH. Well, local conditions and their board of directors determined the rates they pay savers and charge their borrowers.

Mr. HANCOCK. Mr. Bodfish, on that particular point, and in view of the fact that financing, or the interest on financing, is a vital factor in working out a sound and effective housing program, what is the comparative rate according to your knowledge between the cost of financing charged by the various home financing institutions—how does the interest charged by building and loan and cooperate associations compare with the costs of financing by the Federal Housing Administration and the commercial banks and perhaps other lending institutions? I ask you that question for the reason that there have already been inserted in the record certain remarks by different gentlemen appearing, and particularly the Governor of the Federal Reserve bank, on that point.

Mr. BODFISH. Mr. Chairman, I would be very glad to deal frankly and realistically with that situation. In the first place, our thirft institutions have survived and grown over a hundred years because we did a good job and gave the home owner a better deal than he could get anywhere else. Our mortgage loan rates are almost universally 6 percent. With other 10,000 of these community cooperative institutions, there is, of course, some variety in charges, a few with higher total costs and some with loan rates under 6 percent. Rates have been falling in recent months and many of the larger associations are making 5½ percent loans. Competition for good loans has been intense and rates may fall farther, although our smaller institutions cannot go far and survive.

For over 100 years we gave the home owner a high percentage weekly or monthly repayment loan at a time when an amortized 75 percent loan was not looked upon with any commendation or considered at all by a banking institution. As an aside, we find some of the commercial banking institutions looking upon them with more favor now that we have an insurance or guarantee scheme whereby if they make the loan they get a going interest rate, and if they make a

mistake the Government issues bonds and gets the property. But to return to interest rates in our institutions—I have here a table which deals with total charges in over 1,200 of the Federally chartered institutions by States. It is a weighted average of the rate that is charged including all charges of every kind, and it is 6.3. The evidence placed in the record the other day by Mr. McDonald from the Home Loan Bank Review suggested that our institutions charged rates anywhere from 7 to 8 percent. I imagine there are probably some small institutions out of the 6,000 or 7,000 active associations, maybe out in New Mexico or up in the mountains or in some special risky area, that charge 8 or 10 percent. However, the information which he placed in this record did not take cognizance of the assets of the institutions. It was the old proposition of "horse and rabbit stew"—one horse and one rabbit. But when you weight, let us say, the charges of all the Federal savings and loan associations, I use Federals only because the records were available or they are handled here in Washington— in relation to assets, their total effective rate for the country averages 6.3. Now that is cheaper than Mr. McDonald's F. H. A., which has been anything from 6.4 on up to 7 percent plus when the service charges, brokerage, and so forth were included. Incidentally one of our principal complaints—we have used F. H. A. somewhat in our institutions, but in the main we have not used it because we can shoulder our own mortgage risks so long as the competitive-risk situation is fair—one of the principal problems which we have had has been that continual F. H. A. hidden-ball play that we have had to deal with, namely, of 5 percent publicity from one end of the country to the other, and 6.4 on up to 7 percent plus cost.

Now you mentioned Mr. Eccles' testimony and comments. Now I am very sympathetic with Mr. Eccles if he wants to lower the general interest rates around the country. We are willing to see them lowered just as low as it is practical for them to go. We can operate our institutions on just as economical a basis as anyone else. I find however in examining the Federal Reserve Bulletin for April 1937 some information which indicates that the volume of mortgage loans in member banks has not only decreased rather substantially recently but that the prevailing rate among banks on real-estate loans is 6 percent, with 8 percent ruling in the Dallas District and 6 to 8 percent reported throughout the southern and western districts served by the Federal Reserve System We have never had any trouble, gentlemen, in meeting the competition of commercial banks in the mortgage-loan field until the Government started guaranteeing their mortgage loans. We expect to meet competition as it comes and only ask that it be fair and sound. I will leave the Reserve Bulletin article on bank interest rates for your record.

As to life insurance companies—well, their rates frankly have been often but not universally a little lower than our institutions, for the reason that most of them operate from the east, and very properly I suppose, lend only the very select residential and business districts of, in the main, our larger cities. As a recall, the Northwestern Mutual at the present time is lending some money at 4 or 4½ percent in our City of Chicago, but, not in criticism again, it is being loaned so far as I know anything about it, out on the best North Shore residential property. Our building and loan associations, to further illustrate by Chicago, that we find out on the West Side and down on the South Side and the like, are operating on about a 6-percent rate, maybe some of them a little more than that, but they are operating, making home ownership and property ownership possible in areas where you could not get life insurance money to consider going.

Mr. McKEOUGH. In connection with your Chicago picture and the 4 percent you mention, may I interrupt you just a moment?

Mr. BODFISH. Yes.

Mr. McKEOUGH. What is the percentage of the loan?

Mr. BODFISH. The percentage of the loan is 50 percent.

Mr. McKEOUGH. Is it a large loan or a small one?

Mr. BODFISH. They are mainly large residences. It is North Shore, ultra-ultra properties, and the like. It is not the small home, in which we have 75 percent of our 6 billion of assets.

Mr. McKEOUGH. It is not the people we are attempting to reach by this legislation?

Mr. BODFISH. That is right, and a 50-percent insurance company loan does not reach the people who have been served by the cooperative type of community institution which it is my privilege to work with and to be familiar with.

I am sorry to have been so discursive, Congressman Hancock, but year in and year out, and taking the country as a whole, with comparable risks and loan percentages, the total charges of our institutions compare favorably, and are less than most of the other institutions.

Mr. FORD. Mr. Bodfish, the Federal Home Loan Bank Review for November 1937, indicates that the average Federal savings loan interest rates and other charges in the main run from 6.2 to 8.2, and in some cases in excess of 8.2. To what extent is that correct?

Mr. BODFISH. Mr. Ford, that is correct only in the sense that it is not weighted for the volume of mortgage capital involved.

Mr. FORD. Just what do you mean by that?

Mr. BODFISH. By that I mean this: Let us say that there is organized a new institution, or take a little institution operating in some very small town, let us say in Arizona or New Mexico, and let us say that they are charging 8 or 10 percent, and then we have the State mutual let us say, in Los Angeles, with $10,000,000 of assets; let us say their rate is 6 percent. According to the Home Loan Bank Review tabulation the rates range from 6 to 8 to 10 percent. Well, the 8 percent association may involve $25,000, and the other one involve $10,000,000. I have gone to the Federal Home Loan Bank Board and asked them to make a tabulation of all Federals based upon and weighted for the volume of dollars that the associations have invested in mortgages, and their weighted average for the country as a whole for 1,200 institutions is 6.3, including every charge not just the interest, and I have it here by the States. I would be very glad to submit it for the record.

Mr. FORD. I am just asking the question from a purely academic standpoint.

(The witness submitted a tabulation of effective interest rates, which is as follows:)

Effective interest rates on mortgage loans made during 1936 by Federal savings and loan associations

District number State	Weighted average percent	District number State	Weighted average percent
United States	6. 3	District No. 8	6. 3
District No. 1	5. 7	Iowa	6. 2
Connecticut	5. 9	Minnesota	6. 1
Maine	6. 0	Missouri	6. 7
Massachusetts	5. 6	North Dakota	6. 9
New Hampshire	5. 0	South Dakota	7. 0
Vermont	6. 0	District No. 9	6. 9
District No. 2	5. 7	Arkansas	7. 2
New York	5. 7	Louisana	6. 0
District No. 3	6. 1	Mississippi	7. 2
Pennsylvania	6. 1	New Mexico	6. 6
West Virginia	6. 2	Texas	7. 2
District No. 4	6. 4	District No. 10	7. 0
Alabama	6. 9	Colorado	6. 5
Florida	6. 6	Kansas	7. 1
Georgia	6. 8	Nebraska	5. 9
Maryland	6. 0	Oklahoma	7. 3
North Carolina	6. 0	District No. 11	6. 4
South Carolina	6. 2	Idaho	6. 5
Virginia	6. 1	Montana	6. 5
District No. 5	6. 1	Oregon	6. 6
Kentucky	6. 2	Utah	6. 7
Ohio	6. 0	Washington	6. 2
Tennessee	6. 3	Wyoming	6. 8
District No. 6	6. 3	District No. 12	6. 7
Indiana	6. 4	Arizona	6. 0
Michigan	6. 2	California	6. 7
District No. 7	6. 4	Hawaii	7. 0
Illinois	6. 5		
Wisconsin	5. 9		

Prepared in the Office of the Governor Federal Home Loan Bank System. Office of the Chief Supervisor, Dec. 8, 1937.

Mr. BODFISH. In regard to the article, I do not like to criticize anything that is published by a Government bureau, even if we pay for it, but this article was not a carefully prepared article, nor is it quite fair to the institutions which the Federal Home Loan Bank Board supervises.

Mr. FORD. Pursuing the same line of inquiry, did I understand you to say that that 60 percent of the home loans were made by thrift institutions?

Mr. BODFISH. That is right—new loans by our institutions in 1936 and 1937 so far.

Mr. FORD. Now, following the same percentage on $17,500,000,000 of loans outstanding, 23 percent of which building and loan societies made, 17 percent Home Owners Loan Corporation—which I think ought to be excluded—the balance is divided between the individual mortgage companies, savings banks, life-insurance companies, national and State banks, so your estimate would be 23 percent of the whole. Now is that a fair comparison, or if not, what is wrong with it?

Mr. BODFISH. I believe that the figures you refer to deal with present holdings rather than new loans made. When you include life companies you are including their mortgage portfolios, which include a great number of large-unit properties. When you include savings banks, you include their mortgage portfolios, as that $17,000,000,000 total does. You are including some large-unit properties, as I am sure the gentlemen from the savings bank state will bear me out. There is no question in my mind, and I can submit figures of authenticity which will prove that when you go to the small or individual home mortgage field we have a much larger portion of the assets in those kind of loans than the percentage which you mention.

Mr. FORD. The home-mortgage people we are particularly interested in, in this bill, particularly where we go up to $6,000—what volume of that type of loan would you say your institutions carry?

Mr. BODFISH. I would estimate that in the small-home field, $6,000 and under, that we carry easily two-thirds of it.

Mr. FORD. Two-thirds of it?

Mr. BODFISH. Without a doubt. Now, of course I have always tried to be very candid with the committee, and we have about a billion of loans on our books which are no longer under the classification of "mortgage loans." They were 66⅔-percent loans when we made them, but they turned out to be repossessed properties. Our total assets or holdings run about $6,000,000,000 at the present time.

Incidentally, Congressman, this Federal Reserve Bank Bulletin dealing with rates charged by member banks—it might be fair to put an excerpt from that into your record or include the whole article just to clarify the matter, on this bank interest-rate question and broaden the criticism of interest rates in our saving and loan associations by Governor Euler to a criticism of all interest rates.

Gentlemen, if I may get back to the bill——

Mr. MCKEOUGH (interposing). Before you leave that, Mr. Bodfish, there is just one thing I would like to ask you to put into the record at this time. Your experience from 1920 to 1929 was I presume somewhat typical of the experience of all others engaged in the real estate field. You made loans that proved to be too high, I presume.

Mr. BODFISH. Yes; we made quite a number of them.

Mr. MCKEOUGH. Do you remember—have you any figures to show what percentage of the loans made in that period your institutions were forced to repossess?

Mr. BODFISH. No; I do not have figures on it at the present time. We have approximately 20 percent of our assets in repossessed properties.

Mr. MCKEOUGH. And your assets are what?

Mr. BODFISH. Our assets are approximately $6,000,000,000.

Mr. MCKEOUGH. That is $1,200,000,000?

Mr. BODFISH. Our records for 1936 show just over one billion in real estate and those were 66⅔ percent and 70-percent loans, all amortized, Mr. Congressman, without a single exception. We never make anything but a long-term amortized loan.

Mr. MCKEOUGH. So with a view of being fair to everybody, even your wide experience proves to be of very little value in that period? I know you want to be fair and we are trying to get the facts out of which we are attempting to make a program.

Mr. BODFISH. That is right.

Mr. MCKEOUGH. A program that will satisfy your institutions and all other types of institutions——

Mr. BODFISH. That is right.

Mr. MCKEOUGH. And especially with a view of mutually aiding the whole situation.

Mr. BODFISH. That is right.

Mr. MCKEOUGH. To make it possible and practical for the fellow that borrows as well as you who represent the lenders——

Mr. BODFISH. That is right.

Mr. MCKEOUGH (continuing). And the cost of the building and all the other factors that ought to enter into it, out of your experience and that of the others, to make a practical situation.

Mr. BODFISH. That is right. I think, Mr. Congressman, the great lesson of our experience is that there is such a thing as a "real-estate cycle," and when it comes it plays no favorites.

Mr. MCKEOUGH. Not even to those of wide experiences.

Mr. BODFISH. And that in spite of our having exclusively amortized loans which we thought as best we could judge were originally two-thirds and 75-percent loans, that when the deflation came we repossessed considerable property, which incidentally is one of the reasons that personally I can not develop the faith I should in the Government-guaranteed mortgage arrangement. At the next depression the United States Treasury and the Federal Government will have the property rather than the lending institutions, and there is an important question of broad general policy. I think we all ought to move into that thing only after careful study, and make sure that we are doing the right thing.

Mr. MCKEOUGH. In other words, when the plague of the depression hits the community or the Nation, it is not a respector of any particular group?

Mr. BODFISH. That is right. I was very amused yesterday at the banking witness, who indicated he made 50-percent loans before the depression. You asked him what his experience was, and he said it was "Very bad." We feel that the Federal Housing Administration has done a great service through selling the idea of amortized debt to other lenders and the public; that is, if you are going to acquire debt it does not make any difference whether it is a city or a railroad corporation or a public utility or a home owner, there ought to be an orderly program for the repayment of that debt out of current earnings, and within the capacity of the corporation and the individual to carry it. That has been the basis of what success we have had in our mutual thrift institutions of the building and loan type in home financing.

Mr. MCKEOUGH. Will you say right there for the purpose of the record and with a view to making the whole situation for 130,000,000 people better, the shortest way to attack the present housing problem would be in your judgment in the building field, even though it might cost the Government a little to begin with, or even to end with?

Mr. BODFISH. No.

Mr. MCKEOUGH. Well, let me put it to you this way. Maybe that is an unfair question.

Mr. BODFISH. I am willing to answer the question, but I want to answer it my own way.

Mr. MCKEOUGH. I know you are, but I do not think it is quite fair. Let us assume now that by reason of the recession the Government cost, which is yours and mine and everybody else's in the country, is going to be stepped up say 40 percent on relief costs for the next year or so, and as against that, with a subsidy that will come to this from the Federal Government, we might spend say 10 percent of that 40, to start a building program, and then say 20 percent net cost to the Federal Government, which side would you take?

Mr. BODFISH. There is no question, we ought to have the building program, but Mr. Congressman, let us be very sure we have got a program and a legislative vehicle that will work to produce the results.

Mr. MCKEOUGH. I have done everything I could for the past 2 weeks to try to get one.

Mr. BODFISH. Because, Mr. Congressman, 3 years ago—and I am a battle-scarred veteran of that discussion that we had before this committee—the people who prepared the F. H. A. legislation were sure that this government-Guaranteed-mortgage scheme would do the job and stated in the published testimony before this committee that it would put 5 million men to work, and this, that, and the other thing. I am not trying to tear it down, but I am trying to push into the realities, and, if we can, try to help work out a program that will get the results.

The CHAIRMAN. Mr. Bodfish, will you now direct your remarks to the different phases of the legislation specifically, if you can.

Mr. BODFISH. Thank you, Mr. Chairman.

Mr. MCKEOUGH. I will refrain from interrupting.

The CHAIRMAN. I do not mean to shut you off at all.

Mr. BODFISH. Mr. Chairman, on page 5, section 9, I merely want to call to the committee's attention the fact that the shift in premium rates very decidedly places the mortgage insurance on a subsidy basis. A half of 1 percent premium is provided for the larger home construction, and for existing mortgages, on an 80 percent basis, but the premium is cut to a quarter of 1 percent for a 90 percent loan, which we all know is much more risky. The only reason I comment on the premium question is simply this, that you place by premium reductions and the F. H. A. interest change announced by the President the force of Government and the colossal publicity which will flow from the F. H. A. and throughout the land upon this enactment, you place mortgage money on a 5¼ or a 5½ percent interest and 80–90 percent loan basis so far as the expectations of the public are concerned. Now while that may be only let us say one or a half a percent decrease to the borrower, it may become most important to an institution such as our mutual thrift institutions which are trying to gather up savings in the community in the face of competition with our Government, which is paying 2.9 on United States savings bonds, which is guaranteeing bank deposits, savings deposits—not commercial deposits—savings deposits which pay 2 to 2.5, and guaranteeing complete liquidity, and I do not mention all the other competitive phases we have. It is possible if through legislation and publicity you force the rate, let us say, to the borrower from 6 to 5¼, while that may be only three-quarters of 1 percent to the borrower, on a $3,000 loan, less than $2 a month in his payment, it may take out of the cooperative thrift institution one-third or 40 percent of the net income on which it conducts its business. Frankly, gentlemen, we have to pay the small saver or investor 3.5 to 4 percent in order to invite the flow of capital into these thrift institutions, where we invest every dollar of it in mortgages. It takes about 2—a clear-cut 2 percent—to run these

institutions properly and build up their reserves for losses. We are not offering any amendment. We merely call it to your attention because we conscientiously believe that you must be very careful to keep the community institutions, whose whole existence is predicated on mortgage lending, who cannot shift from one investment field to another as can a life company or as can a savings bank, or as can a commercial bank; we must keep them functioning. I know you gentlemen want to assure them, not an exorbitant return, because we have no right or desire for such, but a return on which they can continue to operate and do real community service in thrift and home building.

Mr. WOLCOTT. Mr. Bodfish, might not the amount of the mutual insurance fund of the F. H. A. as compared to their contingent liability have some bearing upon whether the banks might continue to accept F. H. A. insured mortgages?

Mr. BODFISH. Mr. Chairman, I do not believe banks have been inclined, so far as I have been able to observe, to rely on the mutual mortgage fund. They are relying on the Government bond guaranty. I think they realize as we do that F. H. A. expenditures are in excess of the premium income.

Mr. WOLCOTT. How much—do you know?

Mr. BODFISH. I do not know. I cannot tell from their expenditures. They have drawn about $55,000,000 from the R. F. C. They have about $15,000,000 in the mutual mortgage fund. The balance is expenses as I understand it, but that includes title I.

Mr. WOLCOTT. In case of a depression involving liquidation of a large amount of F. H. A.-insured mortgages, what security or what insurance have the banks other than the mutual mortgage fund to rely on?

Mr. BODFISH. The Government-guaranteed bonds of the United States Treasury are squarely behind the insurance. Take that away and, in my humble judgment, the F. H. A. cannot function or proceed relying on the strength of the mutual mortgage fund as was originally represented to the Congress. I think the reality should be realized that the only reason that the commercial banking institutions are depending upon F. H. A. guaranty entirely is the fact that if they make a good loan they get a 5- or 5.5-percent rate on the mortgage and they get Government bonds if they make a bad loan, which is amazing. To state my prejudice and connection on the matter, I believe they ought to be financing American industry and business rather than experimenting in the mortgage field—a practice regarded as questionable by the great majority of bankers.

Mr. WOLCOTT. It naturally follows that if the mutual mortgage fund is inadequate it raises in the same proportionate amount the contingent liability against the United States Treasury?

Mr. BODFISH. That is just automatic. Now, on one of the suggestions I want to call to your attention a little later, it becomes very important in this connection. It has been the policy of this Government to also sponsor and urge and encourage the buying, building, and owning of individual homes. I do not think there is a man here that does not feel that insofar as we can create a nation of small property owners we have done a fine thing, but as you get into the multi-family and large-unit phases of this bill you have a complete Government guarantee practically behind financing of multi-family apartment properties. There is not potential loss there to caution the

large lender, as near as I can understand the bill. The lender should shoulder some risk of loss which would naturally make him somewhat prudent. As I read the present bill, if I build an 80-apartment building and the obligation is insured, and the thing defaults, as they have defaulted from start to finish throughout the country during this depression, the Administrator takes all the mortgage documents, does the foreclosing, and immediately takes the property, letting me as the lender practically walk right out of the situation with a lien loan repaid in full in Government securities. The Government should not lightly assume such a complete guarantee.

Now maybe it is justified in the interest of employment, but I think we ought to do it knowing exactly what we are doing and realizing that we may be throwing the support of Government behind building the apartment buildings and structures to be rented for profit, in a way that is preferential for that type of building activity as contrasted with the building of small homes, which involves the community financing institutions, which involves local lumber dealers, which involves the small contractor, and everyone else. I think that is one of the things that this committee will want to study as you move on through the bill.

Incidentally if I may move on to page 3 of my memorandum, we realize that in our institutions we must get along, and meet the competition that exists in the communities, but we think it would be fair if the Congress insisted on completely fair play and accurate representation in the question of rates. I do not think there is a manager of one of our institutions from one end of the country to the other that does not feel that the public has misunderstood the costs under the F. H. A. sponsored financing. We would like to see the statute and rules and regulations of the Administrator clearly require the making of a record of all the brokerage and the fees and the commissions and all the gadgets of every kind which the borrower has to pay, and that the borrower be given a copy of that particular record. We do that in many hundreds of our institutions, and we feel it would make a much more fair and favorable situation under which we could operate. I do not think there is anything unreasonable about our amendment. If a Government-sponsored lending or mortgage-guarantee agency, using the mails, using the publicity and prestige of the Government, has a mortgage scheme which many people want to use, if it costs the borrower 6.4, the borrower should be told it is 6.4, and the Government agency should not be wandering up and down the land talking about or implying a 5-percent rate to borrowers. As a matter of fact, their approved mortgages were stopped by the better business bureaus in many areas. It was technically 5 percent interest, but then there is a half percent service, and a half percent insurance, 2½ construction-loan fee, and in some areas a broker who submitted the loan to the approved mortgagee got another percent or two. It seems to me it made a thoroughly unwholesome situation and one that was a bit unfair to institutions which were trying to do business without the F. H. A. plan.

Mr. LUCE. Would you like to have the overhead, costing $10,000,000 or $15,000,000, all reflected also?

Mr. BODFISH. Well, I think it would be presumptuous for us to suggest that, but I think as we have got to compete in the field with the Government-sponsored mortgage guarantee plan, that it ought to

be absolutely factual. We had the same thing a little bit under title I.

Incidentally, we want to operate under title I. We want to cooperate in the renewal of title I. But it was supposed to be 5 percent. That was the whole talk. As a matter of fact it cost 9.7, and it was on a discount basis. At the same time, the Federal Trade Commission had the General Motors Acceptance Corporation down here on the pan because they had a 6 percent plan, when the Government was running the same sort of operation itself.

Mr. LUCE. You think we should appropriate $10,000,000 or $15,000,000 a year for administration expenses. Ought not that to be included in the cost?

Mr. BODFISH. I think it is up to the Congress as to what money it wants to expend in the conduct of the F. H. A. arrangement.

Mr. LUCE. I know, but you want the borrower to know exactly, of course?

Mr. BODFISH. No; we are not going to the point of wanting the borrower to receive a copy of the annual report of F. H. A. each year. That is not important to us. I will illustrate practically the situation. We have had people walk into our institutions. This happened to one when I happened to be present once. A borrower came in who had had an amortized mortgage loan with that institution at 6 percent for a number of years, and this borrower said, "I want one of those 5 percent Government loans." Well, naturally it would be only proper that the executive of the institution said, "Well now, we have enjoyed dealing with you, and we have tried to be fair, and our rate is 6 percent. This loan you are talking about is going to cost you 6.4."

Well, the person stepped right up to the phone and called up the F. H. A. office and said, "Didn't you tell me that interest rate was 5 percent?" "Yes, it is 5 percent," but there was another point and a half to two points of "hidden ball" in the thing, and consequently we have had dissatisfied customers from one end of the land to the other.

Now maybe this is a petty thing to talk about, but I think when the Government is going to force the interest rates down, if we are going to emphasize the lower returns to capital—which incidentally is one of the causes for some of your business problems today; we have gone too far on it—let us put it on an absolutely fair basis so that everybody's whole hand is played above the table.

I have already commented, in response to the question of Mr. Wolcott, on the practical implications of lending institutions getting a Government-guaranteed bond in exchange for a piece of foreclosed real estate.

We would like to see in section 20 of the title which appears on page 14 an amendment which would permit the mortgager and the mortgagee if they agree or concur, to withdraw the mortgage from under the insurance and carry their own risk if the lending institution sees fit.

We feel that the change in rates that has been proposed in this bill, or by the F. H. A., eliminates the mutual-mortgage fund as a fund from which the borrower will ultimately get a return, which was the original theory, and that being the case we see no reason why, once a mortgage is insured, that the Government should be forced to continue to carry that contingent liability by leaving the situation such that the mortgage cannot be withdrawn if the mortgagor and the mortgagee are willing to relinquish the insurance.

Mr. GIFFORD. You would be quite willing and want to save the expense after it was down to about 50 percent, would you not?

Mr. BODFISH. Yes, of course—and possibly after getting it down to 66⅔ to 70 percent.

Mr. GIFFORD. And are they not relying on that insurance, the Government carrying it while it is dangerous and then being relieved when it is not dangerous, and then your fund is depleted?

Mr. BODFISH. What happens as it is now, in order to pay off an F. H. A. mortgage we have to pay 1 percent. The borrower pays, or they are amending the act so that the mortgagee pays it, which means he will pass it on to the borrower, in order to refinance the mortgage or to get it out from under the insurance.

In the main, in our building and loan associations, we have also followed the policy that a person should be permitted to refinance or pay off his obligation at any time that he saw fit without penalty.

Mr. HANCOCK. Mr. Bodfish, do you not think the Federal Housing Administration, considering the problem that they face, would be doing very well if they can restrict the cost of administration and their losses to an amount that would come within the insurance fund?

Mr. BODFISH. In my judgment costs of administration exceed their insurance income at the present time, to say nothing of reserves for losses.

Mr. HANCOCK. In other words, they would be doing a pretty good job if they could hold losses and costs of administration to the amount of the insurance fund, would they not?

Mr. BODFISH. Yes; I think they would be doing a very good job.

Mr. SPENCE. Mr. Bodfish, under the charters of mutual associations and thrift associations and your other associations, you are limited in your investments to loans on real estate, are you not?

Mr. BODFISH. Exclusively.

Mr. SPENCE. Exclusively?

Mr. BODFISH. Other than loans on our own passbooks; that is, if a person has a savings account sometimes he needs funds but does not want to withdraw it.

Mr. SPENCE. That merely means the withdrawal of money he pays in?

Mr. BODFISH. That is right.

Mr. SPENCE. But the only investments you can make are loans to home owners?

Mr. BODFISH. That is right. We can buy a few Government bonds at times. Going back to times of normal operation when we did not have repossessed worries I think our figure was 92 percent of our assets in residential mortgage loans.

Mr. GIFFORD. I want to continue that other matter about paying off the mortgage. They can cancel and pay off the mortgage at any time, can they not, and refinance it?

Mr. BODFISH. No, the way this thing is set up the Administrator can charge you any amount he sees fit up to the total of all the premiums that would be paid if the mortgage were carried to maturity.

Mr. GIFFORD. You mean to say if they carry a mortgage 6 or 7 years and then want to pay it off that they could not pay it off and refinance it?

Mr. BODFISH. You cannot pay it off without paying a penalty, which is determined by the Administrator, and which he may levy up to an equivalent of all the future mortgage premiums that would be due.

Now, gentlemen, I want to move to the sections that deal with rental housing, starting on page 16. The only thing I want to call your attention there is the fact that as nearly as we can determine the guaranty—namely, the exchange of Government bonds which you place behind the financing of apartment buildings and structures of the like—is a 100-percent guaranty. The theory of the mutual mortgage fund, as I understood it, was that the lender and the Government share the loss—that is, in part. That is the theory of the foreclosure and repair costs being attributable to and being paid by the mortgagee. Under the apartment or large mortgage insurance or guaranty here the Administrator takes title to the property, does the foreclosing, and pays off the mortgagee in bonds guaranteed by the United States Government. Now, we are not opposing this section, but we are merely submitting to you that probably the easiest thing to do is to so write that section that the lender that furnishes this money takes some part of the loss, otherwise you are going to have most generous and dangerous financing. You will get action in the way of building apartment buildings around this country.

Mr. HANCOCK. And what is the difference between the new provision and the existing provision on the question of cost to the lender, or rates to the lender?

Mr. BODFISH. The provision that now exists, Congressman Hancock, is a very brief one and does not occupy as I recall more than 15 or 20 lines. The new provision completely rewrites the section and expands it and makes it complete and of the character which can be very much more operative probably than it has been at the present time.

Mr. HANCOCK. Under the present language, foreclosure cost is all refunded or provision made for reimbursement to the lender, is it not?

Mr. BODFISH. You mean on the small mortgages?

Mr. HANCOCK. Small or big.

Mr. BODFISH. No; I do not so understand it, as regards home mortgages. Under your section 207 here—section 22, as I understand it—the Administrator takes the property, can do the foreclosing himself, is authorized to pay the foreclosure fees out of funds under his control, and the lender can walk out of this thing whole with these Government bonds.

Mr. HANCOCK. The only difference between that and the present law that it is incumbent upon the mortgagee to do the foreclosing, to repossess the property, to get the title and turn it over to the F. H. A.——

Mr. BODFISH (interposing). And to repair it.

Mr. HANCOCK (continuing), Then the F. H. A. in turn issues them the amount of the mortgage in bonds or debentures and sends them a certificate to cover the foreclosure costs and other necessary expenses. As I understnad it, they would file with the F. H. A. what they call a "certificate claim" or "cost claim," and that becomes a debt of the insurance fund.

Mr. BODFISH. No; that "certificate claim" in the small mortgages is something you get back as a lender if the property sells for more than the amount of the mortgage.

Mr. HANCOCK. I may be mistaken about that.

Mr. BODFISH. If the property is worth more than the amount of the mortgage the F. H. A. Administrator will never get it. The institution would look after it itself.

Mr. TRANSUE. About the 60 percent of the mortgage loans being made on the smaller type of homes by the building and loan associations, is that true in Michigan as compared with the other break-down of the States?

Mr. BODFISH. No; I am not sure that that is quite true of Michigan, Congressman Transue. One of the situations that was troublesome, was Michigan, for the reason that you had such an extensive commercial bank participation in mortgage lending in the Detroit area, and we regard it as one of the reasons the Michigan financial situation tipped the way it did. It is a true statement in most of the smaller cities in Michigan.

Mr. TRANSUE. How about Flint and the building and loan association there? Do you know about that?

Mr. BODFISH. Flint as I recall, there is no institution there. It has a small Federal which has been started in the last 3 or 4 years, which has made about a half million dollars in loans.

Mr. TRANSUE. The building and loan association that was there went out at the time of the embezzlement by the people in the institution?

Mr. BODFISH. No; as I recall—well, I do not know about that. You had a big bank embezzlement up there. I did not know there was a building and loan embezzlement too.

Mr. TRANSUE. We had one in the building and loan, too.

Mr. BODFISH. Occasionally we have "eye" trouble in building and loan associations as well as everyplace else. We call that "eye" trouble—you know, that inability to tell other people's money from your own.

Mr. TRANSUE. And so, so far as Michigan is concerned, there is not the same opportunity to look for building money there as there is in the other parts of the country, for building those associations?

Mr. BODFISH. We are not so strong in Detroit, although there are several excellent institutions in the metropolitan area. Of course Flint involves—if you want to talk about local towns—involves a situation in which one has to proceed with considerable caution in making 15- or 20-year loans. It is a one-industry town and does involve some very peculiar problems for that reason. Our institutions are very strong at other places, especially in Lansing, Saginaw, Kalamazoo, Hancock, Benton Harbor.

Gentlemen, I want to move quickly on to page 32.

Mr. MCKEOUGH. Before you get there, what about this dwelling cost per room? Have you any suggestions on that? They have that here at $1,000. We had the National Housing Act under consideration. The committee finally decided on $1,250. Have you any comment on the practicability of that in large concentrated areas of heavy population?

Mr. BODFISH. I think it is a little low if the Government is going to guarantee mortgages on what you would call fairly high-class apartment dwellings. Now, under your present statute the apartments or multifamily dwellings which may be financed under Government-guaranteed mortgages here are your families of low income. That

restriction is put definitely in the statute by the pending bill. This rewriting of that section removes the pointing of this to families of low income and merely puts a per-room cost on the thing. I think that is probably a little low in a city like New York or Chicago, but certainly not too low for cities where construction costs are not as high.

Mr. McKeough. Thank you.

Mr. Bodfish. I want to talk about national mortgage associations a little bit, because we have some strong convictions in connection with that particular part of the legislation.

Mr. Spence. Mr. Bodfish, on yesterday Mr. McDonald and Mr. Ferguson both said that the activities of the national mortgage associations were limited to section 207, under section 26, and I was wondering what your opinion on that subject is.

Mr. Bodfish. Congressman Spence, that appears on page 32, section 26, and I have examined the language carefully. It is the basis of one of our strong objections to this bill, because as we read it carefully the national mortgage associations can purchase or service any type of first mortgage up to 80 percent of value.

Mr. Spence. Is not that all qualified by the language of section 10 and 22, "which are insured under section 207 of this act"?

Mr. Bodfish. No; because as you read the bill it says that subject to the rules and regulations of the Administrator, he may purchase, service, and sell first mortgages and other first liens not exceeding 80 percent of the appraised value of the property "and" to make mortgages and advances which are insured under section 207. The word is "and." The "207" reference as I read it is not a qualification.

Mr. Hancock. Yes; you make advances only on mortgages insured under 207, under the language of the bill?

Mr. Bodfish. Well, "purchase" is officially what the RFC Mortgage Co. is doing. No; they can make advances—that is, they can go directly into mortgage operation, make the original loan, carry it through the construction period, through 207.

Mr. Hancock. That is connected with a large-scale operation or project?

Mr. Bodfish. That is right. Now it is not our purpose to suggest to Congress as to what you should do as to the large-scale operation. We do not make large-scale loans, and we do not intend to, but 4,000 of our institutions have put considerable money into the Home-Loan Bank System, and we think it is doing a good job. We have 12 banks, about $200,000,000 assets, at the present time. We have gone into the capital markets, and, incidentally, our debentures are restricted to 5 times our capital, or our secured bonds 12 times, where these national mortgage associations propose to go in on a 20-to-1 basis, which is pretty thin, we feel that if you are going to have any national mortgage association operation, it should be at the most confined to the larger-unit phase rather than duplicating and intruding upon the work which now is done by the Home-Loan Bank System, of which we have about 4,000 local members, largerly building and loan associations, but including savings banks and smaller insurance companies.

Mr. Hancock. Mr. Bodfish, from the testimony that has been produced here I think it is quite clear that that is not the concept that the officials of the Federal Housing Administration have of those particular sections.

Mr. Bodfish. Then if that is not their concept, they should have no objection at all to rewriting the language so it is made absolutely clear. I think that under this language they are confined to assuring loans.

Mr. Williams. Do you feel that there is any need or any necessity or any demand now for a market for these home loan mortgages, a clearing house for them?

Mr. Bodfish. No; I do not.

Mr. Williams. That is, where the banks and building and loan association in the case of need could go and sell them?

Mr. Bodfish. I do not think so myself. I think we have adequate facilities for small mortgages in the Home Loan Bank System.

Mr. Williams. You recognize, I think, a very fundamental difference between the principles we are discussing, one of them which permits a loan direct, and the other one which simply permits them to buy and sell mortgages on the market?

Mr. Bodfish. Well, I think that the thing amounts to this: When you say "buy and sell," Mr. Congressman, as a practical matter it amounts to direct loans, because under the legislation as it has been written here it is possible for the F. H. A. to give a commitment in advance of construction, regarding the insurance, so that when the building is constructed, so that if it meets inspection and rules of the F. H. A., they will insure the mortgage, which means that an individual practically can get an advance commitment. When I have the insured mortgage then I can sell it to the RFC Mortgage Co. and that is a thing that has been going on so far, and to my mind that is just—well, it is not direct loaning, but it is only about a few degrees removed from direct loaning.

Mr. Williams. Has it not been a fact that one reason that has deterred lending on real estate has been due to the fact that in case of necessity, in case of need, the lending institutions have not been able to dispose of these mortgages? In case a depression comes there are a lot of frozen assets, especially in the banks, and if they had an agency to which they could go, such as the National Mortgage Association, proposed in this case, to which they could go, to whom they could dispose of these mortgages, would that be a help?

Mr. Bodfish. As far as the banks are concerned, if you use that as an illustration, you have already provided by statute that these F. H. A. mortgages can be taken to the Federal Reserve System and made the subject of—not discounts, but advances, which advances are not limited in any way, they could be 100-percent advances.

It seems to me that as far as banking institutions are concerned, that is all the support that their investments in long term mortgages needed, when you agree to put the money issuing power behind them.

Mr. Williams. That takes care of the Federal Reserve System, but you know that there are 8,000 banks in this country outside of the System.

Mr. Hancock. Then, too, Mr. Bodfish, banks cannot handle those large mortgages can they?

Mr. Bodfish. I do not know. I think they can, legally——

Mr. Hancock (interposing). They are prohibited, are they not, from making any one loan in excess of a certain amount of their capital and surplus?

Mr. Bodfish. In excess—what is it? Ten percent of their capital reserve? But a large bank could make them.

Mr. HANCOCK. Do you know of any real, active, liquid market for large mortgages today?

Mr. BODFISH. I cannot speak for the principal source of that type of capital. Of course, it is the insurance companies who have made the bulk of that type of loans. I think there will be plenty of capital available for those kinds of mortgages. If you set up this arrangement, so that if an institution makes one of those large-unit loans and it does not turn out just so well, he can get Government guaranteed bonds in exchange for it, that certainly ought to bring capital into the field if it is desired.

Gentlemen, on the National Mortgage Association matter, we strongly urge that those facilities be confined to the large-unit activities, feeling that our home-loan bank system serves the other small field.

Mr. FORD. Might I inject just one remark there, Mr. Chairman? Mr. Bodfish, you know that here in Washington there have been two or three rather large operations financed, that the mortgage was taken by the R. F. C. and later on sold to big insurance companies. Isn't it true that this National Mortgage Association—now, I do not know the language of the bill here—might be altered a little? I do not know about that. But would not that make a sort of situation similar to what the Federal Reserve is to the Federal Reserve banks, a place where if they go to turn that mortgage into money they could do so, at any time during its life?

Mr. BODFISH. My understanding is that the projects which have been financed here, the commitments were made directly and the advances were made directly by the life insurance companies, that these large-unit mortgages as I understand it did not go to the R. F. C.

Mr. FORD. I do not understand that. I understand the R. F. C. did make some of the original loans and then sold the mortgage to the insurance companies.

Mr. WILLIAMS. I understand it that way.

Mr. BODFISH. I am not informed about two of the largest projects where the loans were made by the Prudential and the New York Life.

Mr. FORD. I am just citing that as an example of how this might work out in the main.

Mr. FORD. I think it is a fact the R. F. C. Mortgage Co. has not only engaged in purchasing F. H. A. mortgages that were not sold to other lending institutions, because there have been times when they have given builders and contractors commitments to furnish the money after the project is completed and the mortgage is in.

Mr. BODFISH. Answering Congressman Ford's question, I think there is no question but what the lending on large-unit properties in this country should be subjected to some type of Government supervision. Certainly none of us want to see again the repetition of the real-estate mortgage-bond fiasco that we had from one end of this country to the other.

Mr. McGRANERY. That is one reason for the National Mortgage Association in this bill. You take that out and you take the heart right out of this bill.

Mr. BODFISH. Well, with all the colossal accumulations of capital that you had in the insurance companies and in institutions of that kind, if you give large lenders a very generous guaranty it is also necessary to use a Government unit here to issue securities and raise the capital also. And of course I do not think they can sell any of their securities unless you give them a very broad tax exemption and possibly guarantee their bonds, which is certainly not private enterprise.

Mr. McGRANERY. Has there been a single person, Mr. Bodfish, that has appeared before this committee, that would say that this is attractive to them as an investment proposition? Not a single person.

Mr. BODFISH. Then, Congressman McGranery, doesn't that raise a reservation? If private capital is afraid of it, I think we ought to use considerable caution before we put Government funds into a direct Government-lending operation.

Mr. McGRANERY. I do not think private capital is afraid of it. I think private capital might want a greater return for their money.

Mr. BODFISH. Of course, no private capital in any field can successfully compete with the credit costs of our Government, because after all that credit is predicated on the assets and the productivity of all the industries and the business and the individuals of the country, and my only thought on the thing is let us not have it in the small field where we have already a home-loan bank system.

Mr. McGRANERY. If we fix a fair rate here, what we consider to be a fair rate, and then fail to establish the National Mortgage Association, we are again going to be at the mercy of private capital. They will refuse to come in and will demand a higher rate of interest.

Mr. BODFISH. Well, I think anything can be done in the world if we put the Government credit behind it. That is, there is no question about it.

Mr. FORD. Do I understand that objection then, Mr. Bodfish, to be that you want this limited to the larger projects?

Mr. BODFISH. That is it.

Mr. FORD. Absolutely confined to that?

Mr. BODFISH. That is it.

Mr. FORD. Under the language of the bill, I do not know. It seems to me to be all right, but if it is not the lawyers can straighten it out.

Mr. BODFISH. I think that is particularly important.

Mr. WILLIAMS. There is no question in my mind about the language of this bill. It throws open the door absolutely to national mortgage associations, so far as buying and selling of mortgages is concerned, up to 80 percent.

Mr. BODFISH. That is right.

Mr. WILLIAMS. In addition to that, it permits them to make loans directly for the construction of projects under section 207, on which a mortgage has been executed and which has been insured by F. H. A.

Mr. BODFISH. That is right. I think there is another thing. Governor Eccles testified before the Senate committee, and I think Mr. McDonald did, too, that tax exemptions are necessary for the securities of the National Mortgage Associations to operate.

Mr. WOLCOTT. Before you get into that, at the present time are not the proposed functions of the National Mortgage Associations pretty well taken care of through the home-loan bank?

Mr. BODFISH. Insofar as the functions in the smaller mortgage field are concerned, we think our home-loan bank system does that job, and does it well. As far as the larger unit mortgages are concerned, we do not take them at all in the home-loan banks system.

Mr. HANCOCK. You want the Home Loan Bank Act amended so they can extend their lending privileges, do you not?

Mr. BODFISH. No; not quite that much. One of the things in order to help our institutions function a little more in this—we realize some validity in the argument that a portion of our population must rent and probably there should be some building of multi-family properties, and we would like to see our Home Loan Bank Act amended so that our institutions could go a little further than they go now in the rental-property field. We do not care to go into any of these great big $5,000,000 things. We have no capacity nor inclination to do that.

Mr. WOLCOTT. What I was leading up to was the fact we could accomplish the same purpose as is proposed in this act by some amendments to the Home Loan Bank Act, could we not?

Mr. BODFISH. That is true, except this, Congressman Wolcott: We have had a pretty conservative set-up in the Home Loan Bank Act. For example, when we issue debentures we cannot go beyond five times our capital. If bonds are issued and secured by mortgages we cannot go beyond 12 times our capital.

Mr. WOLCOTT. Do you not think it advisable to keep it a little more conservative than as contained in this bill? Perhaps that is an unfair question.

Mr. BODFISH. No; I do not. I think this—that when you start out with knowing all the perils of large-unit mortgage lending and put Government capital into a central mortgage association or mortgage bank, or whatever you want to call it, and then have it issue guaranties to 20 times, with only 5 percent margin—I think you have stretched your operation, that is, your debentures or bonds in relation to your capital structure, too far.

Mr. WOLCOTT. Do you not think the debentures which the National Mortgage Associations are allowed to issue should be proportionate to the amount of the capital paid in by private enterprise?

Mr. BODFISH. I would certainly think so. Of course, this is so drawn that capital does not need to be paid in.

Mr. WILLIAMS. Otherwise we would have a Federal Housing Administration insuring mortgages, and then the National Mortgage Association underwriting the mortgages, and the Federal Treasury holding the bag for both agencies.

Mr. SPENCE. They cannot assist, as the Federal home-loan banks give the building and loan associations and the thrift associations assistance?

Mr. BODFISH. You see, the home-loan bank system is set up on the basis of purchase of stock by the institutions. We bought over $30,000,000 in stock, and that stock interest is increasing at all times. The Government has invested also in the stock. There are provisions in the act for the ultimate retirement of that Government stock. As I recall, the banks, since their beginning—you recall they were set up just before the storm hit us in the way of the "banking holiday" and the like—have had a turn-over in loans of about $350,000,000. They now have advances of about $150,000,000 out. They have gone into the capital market and raised $75,000,000, and those bonds are not guaranteed by the Government. On the other hand, the home-loan banks are not private institutions.

You see your National Mortgage Association set-up is a private mortgage company operated for profit by individuals. Our home-loan bank system is a quasi-Government operation operated or supervised under a board appointed by the President. They pay

dividends to the members only on concurrence of the board, and the board has broad supervisory powers in regard to member institutions and the like. The home-loan bank system has about 4,000 members at the present time.

Mr. SPENCE. Can you rediscount your paper with the home-loan banks?

Mr. BODFISH. No.

Mr. SPENCE. Is there any place you can rediscount your paper fully in operations with either the Federal or State organizations?

Mr. BODFISH. We can take our mortgages to the home-loan bank system and borrow up to 65 percent of the unpaid principal of a mortgage that is current and up to date. In other words, there is nothing in our proposal or in our home-loan bank set-up that does not force the lender to eventually carry a good portion of the risk. There is no such thing as a discount operation. It is purely a borrowing operation on the security of the collateral.

Mr. WILLIAMS. That act limits membership to certain classes of institutions?

Mr. BODFISH. Insurance companies, savings banks, building and loan associations, and cooperative banks.

Mr. WILLIAMS. It does not include banks in a general sense and mortgage companies?

Mr. BODFISH. It does not. It does not include commercial banks, and it does not include mortgage companies for the reason they are not supervised institutions. A principal requirement in the act is they must be institutions subject to public inspection and supervision.

Mr. SPENCE. Do you think that provision of the law should be liberalized with reference to your privileges about borrowing on paper?

Mr. BODFISH. You mean 65 percent of that? I think 65 percent is very conservative. I think sometimes when we have had more experience it can be raised. But keep in mind we are trying to build the source of capital in the private markets without a Government guaranty. Now, the last $25,000,000 debentures that were sold, sold on a 2-percent basis, but they were 3-year maturities. The real problem and the test of what the Home Loan Bank System is really going to amount to will come when you get to the place of selling 10- to 15-year securities, and certainly they are going to sell at a half point at least above the direct Government obligations, so this thing is not something that you can just dash right into, and I think if your national mortgage associations sell long-term securities, unless I am mistaken, unless they have very strong Government support there will not be much market for them.

Mr. CRAWFORD. May I ask one question?

The CHAIRMAN. Certainly.

Mr. CRAWFORD. Mr. Bodfish, that provision of section 7 is very intriguing to me, and I think very sound, but I want to ask you two simple questions. Do you know what the profit mark-up per unit is by this English firm of Lang & Co. you referred to?

Mr. BODFISH. The mark-up of John Lang & Co., I happen to know, but I hesitate to put it in the record. You see what I mean.

Mr. CRAWFORD. I won't ask you to do that. In other words, it is sufficiently high that he can well afford to go into the pool?

Mr. BODFISH. Let me say this. It is about four times what he puts in the pool.

Mr. CRAWFORD. That is close enough.

Mr. BODFISH. And my understanding is he puts less than 3 percent in the pool.

Mr. CRAWFORD. That is close enough. Now, one other thing: You feel that if this committee did give serious attention to this recommendation and adopt it that our building operators would make a strong attempt to increase their mark-up over and above present margins in order to offset the contribution they would make to the pool?

Mr. BODFISH. I do not think they should. I think that where a man is making, as a builder on a small house, anywhere from 15 to 20 percent on the transaction, which is common in this country, I think he ought to be willing to leave 5 percent in there for 3 or 4 or 5 years, if your are going to give him what we know as "abnormal", and incidentally very risky high percentage loan partially guaranteed by the Government.

Mr. CRAWFORD. That is the reason I feel the amendment is so highly constructive.

Mr. BODFISH. Of course, it is possible he may inflate his prices to the place of making up for that, but I do not know how we can control prices.

Mr. Chairman, I want to get to an important thing here for a minute. Starting on page 6 of my memorandum we are asking that you include in the statute a clear-cut provision that institutions of our type can function under title I. We had quite a time with title I before. It was set up essentially as a personal-loan operation originally, for commercial banks, and after about 9 months of negotiation and working around, but after business was largely under way, we finally got it worked out so that we could have some of the benefits of title I.

We would like to see it set forth in the act that institutions who must take security for their loans—and we must do that in the savings banks and in the building and loan associations—can have the benefits of the title I insurance.

Now, turning to page 7 or my memorandum, the next things that I ask the committee's attention to deals with the Home Loan Bank System and the institutions under it. If we are going to have further pressure on interest rates, namely, incomes from borrowers, we need some changes which will help our institutions to operate under the legislation.

For example, we are quite willing and anxious to see our home-loan banks opened up a little bit with regard to multifamily property. We do not want to go to real large-unit ones, but at the present time we cannot take anything to the home-loan bank, which houses more than four families. We would like to see you liberalize that a little bit so that as determined by the Board here in Washington if we make certain loans on 6, 8, or 10 apartment structures, or something of that kind, in helping to carry a construction program, we can use that mortgage paper at our home-loan banks for borrowings.

We also feel that depressions can still happen in this country, and while we are making good progress in establishing the securities of the Home Loan Bank System in the financial markets of the country, we do think it would be wise, assuming that major demands may be made on that system by its 4,000 institutions if a recession period should develop or something of that kind, that you arrange so that the H. O. L. C. (Home Owners' Loan Corporation), which is under the same Board, can support somewhat the securities which the Home Loan Bank System has issued and will issue.

We do not think that involves—it does not involve at this time 1 cent of money. We do not think it involves any radical change in policy, but we do think it rather wise, because as I say, we think depressions can and may happen again in this country.

As a part of this whole idea of fitting our institutions into this thing we would like to see our Federal savings and loan associations, of which there are 1,200 liberalized a little bit as to the extent that they can go moderately into the multifamily program which the President's message talks about.

We also have a little cloud hanging over the functioning of some 1,200 of our institutions, namely, the State of Wisconsin is contesting the constitutionality of the Home Owners' Loan Act.

Mr. Chairman, we want these amendments very much. We would like to see you add about half a dozen amendments. I think they are in the main things that your Federal Home Loan Bank Board will not disagree to, although of course I cannot speak for them, but if you are going to revise the whole F. H. A. Act it seems reasonable to ask if you are interested in housing finance and stimulating the flow of capital into the field, that you control by some things that will help our 4,000 or 5,000 or 6,000 active institutions to meet that competitive situation, and go sailing along and do their part.

The CHAIRMAN. That has not been called to our attention until near the end of this special session in which we are trying to deal with one phase of this matter. This is the first time the suggestion has been called to our attention at all. The Home Loan Board has not mentioned it as yet, and if there is anything desirable along that line I am sure the members of this committee would be glad to consider such legislation when we have an opportunity to do so. Of course, we have great respect for your judgment about all proposed changes that may be thought to be necessary.

Mr. BODFISH. Mr. Chairman, my only thought is, I do not know what the Federal Home Loan Bank Board can do in the way of suggestions, but here we are getting the whole country interested in a housing program. It is going to have some very adverse effects in our judgment on our institutions that are doing the bulk of this business, and it just seems to me that it is not a well-rounded program unless it does give some attention to the ability of the thousands of institutions under the Home Loan Bank System to function effectually in the picture.

Mr. MCKEOUGH. Why leave out the multiple dwellings here? Why do you feel that would be a benefit to your group, to limit that to four?

Mr. BODFISH. We are limited to four at the present time.

Mr. MCKEOUGH. You are offering amendments. I wondered if you wanted to amend that.

Mr. BODFISH. No; our institutions can, as building activity develops, make some loans that are larger than four families, especially through our larger institutions, and we would like to see our Home Loan Bank System liberalized so that we can raise some money on that kind of paper. It would encourage our institutions somewhat to assist in that phase of the President's housing program. That is the only reason we mention that at this time.

Mr. McKeough. That of course is multiple dwellings, and you testify that your principal activity over your many years of existence as private institutions is in single-occupant type, single dwellings.

Mr. Bodfish. That is true.

Mr. McKeough. It is not a branching out into the multi-family dwelling where we have F. H. A. and other large loaning institutions which have already been in position to handle those?

Mr. Bodfish. We are willing to move on up into the smaller multi-family dwellings.

Mr. McKeough. Yes; I know you are, but I just wondered why you changed now. You have never heretofore gone into that phase as private institutions.

Mr. Bodfish. We have had some of our institutions who have.

Mr. McKeough. Yes; but generally speaking, you are the owner-occupant dwelling institution private lending.

Mr. Bodfish. That is right. We are just trying to move into and adjust to the current mortgage business. It is a battle to get good mortgage loans at the present time, and having Government leadership and great emphasis placed on the building of buildings for renting I do not see why it should not be wise to encourage some of our larger institutions to finance something bigger than homes.

Mr. McKeough. Do I understand from that suggestion that you anticipate real improvement in the multiple dwelling picture so that we can assume from the testimony that we can look forward to a real revival in building?

Mr. Bodfish. I think you are going to build under this legislation a lot of multiple-family properties, because I think a lot of support is being thrown behind the building of large properties for rent.

Mr. McKeough. I can understand that, because you feel that the owner-occupant dwelling will not be attractive, and therefore you want to be in position to get into this.

Mr. Bodfish. I think home ownership is going to become less attractive if this Government sponsors multifamily renting construction too strongly. I am willing to admit there is a proportion of our population that should probably live in properties built to rent.

Mr. McKeough. Do you feel that this particular plan is more attractive to the lender than the National Housing Act that we passed in the closing weeks of the last regular session?

Mr. Bodfish. No; that was supposedly for the lowest income groups, the groups that need direct subsidy in providing decent quarters.

Mr. McKeough. Well, that is the great bulk of the people, is it not, the unorganized forces of industry who need homes most badly?

Mr. Bodfish. I am going to give you a surprising answer on that: I think that we have convinced ourselves in this country that housing is worse than it really is; that is, our housing in America—and by that I am not objecting to improvement, and desire to do everything I can to improve it—is better than anything that is even dreamed of in most other parts of the world. We do not know what a slums is compared with slums of Manchester and Leeds in England, where the public housing slum-clearance projects have been conducted there.

Mr. McKeough. I am just a normal American. I am not so familiar with Manchester and Leeds, except as I have seen them in the books, but if there is anything worse than we have in some section of this Nation they must be deplorable.

Mr. Bodfish. They are.

Mr. McKeough. And they are sufficiently deplorable here to warrant the interest of everybody in trying to improve them, even though they may have been worse in Manchester and Leeds.

Now, what I am seeking to find out—I am encouraged by reason of your suggestion that we consider the multiple dwelling or four-unit dwelling, or whatever you want to call it, so that you people can get in. It seems to me this is the first intimation you have brought to the committee of your desire to participate at least in some phase of this, that you heretofore have not taken up, and I am very much interested in having a bill that will interest all phases of private lending, but I think we are dwelling entirely too long and too carefully in our testimony on the lending side, and I have no objection whatever to making that subject sufficiently attractive to warrant the flow of capital, which is quite necessary if the plan is to work, but I think we might consider more at this time the phase that the F. H. A. amendments propose, to take care of the features that you discuss later, and devote some little attention to who the people are going to be that are going to have sufficient income in this country to have buildings built as owner-occupants, and we ought to devote some little attention, and I would like to have your contribution for the record as to what you think is the possible owner dwelling unit, number of buildings that might be developed if we get a satsifactory bill.

Is there a sufficient number of people in this country needing homes that this bill will attract, with sufficient annual income to warrant our considering this as a practical situation, if we develop it to the point of enactment?

Mr. Bodfish. Mr. Chairman and Congressman McKeough, I think there are many many families, and I think they run into the hundreds of thousands, who will embark upon home ownership as the general business situation becomes such that they feel in their heart that they are going to have employment and that they are going to have regular wages, and if the costs of home purchase are such that they feel that it is probably as good a business proposition to that little family to buy and build as it is to rent or take existing property.

Mr. McKeough. That is the natural desire that has always been prevalent in every generation. Is not that safe to assume?

Mr. Bodfish. That is true, and we hope it is maintained. Of course, we suspect sometimes it is a desire for an automobile rather than a home.

Mr. McKeough. Well, that has been the cry for 25 years. Nevertheless it was present during all of the 25 years' cycle of the development of the automotive industry.

Mr. Bodfish. That is right.

Mr. McKeough. Now in the President's message he points out that from 1930 to 1937, inclusive, the average annual number of new dwelling units constructed in the United States was 180,000 as contrasted with the annual average of 800,000 in the 7 years prior to 1930, and he goes on to say in his message that "It is estimated that an average of 600,000 to 800,000 dwelling units ought to be built annually over the next 5 years to cover the accumulated shortage and to meet the normal growth in the number of families."

Now, from the period of 1930 to 1937 your people participated as largely as other private lending institutions in the development of home building. Your own experience may not have been quite as satisfactory as some of the other institutions that participated in that building boom, and I think you testified that in the pick-up that followed the collapse, coming out of the '29 to '33 debacle in securities values, and yet there were only 180,000 units in the years that this program was under way. They have already been developed.

Now, what concerns me is, on the assumption that these amendments will prove to be practical, as they are attractive to you and the other lending institutions, on a just, equitable, and sound economic basis, on a 20-year program, what can we anticipate in the way of building units constructed that will in any way aggregate the number that the President hopes might be reached?

Mr. BODFISH. Congressman McKeough, that is a sweeping question. I think it is tied up with a whole group of broad questions.

Mr. McKEOUGH. I am assuming now that all of the factors, the loan factor—that is what concerns your people principally?

Mr. BODFISH. That is right.

Mr. McKEOUGH. You are representing institutions that loan money?

Mr. BODFISH. That is right.

Mr. McKEOUGH. Your primary interest is naturally to make a sound loan?

Mr. BODFISH. That is right.

Mr. McKEOUGH. And nobody has any quarrel with that approach.

Mr. BODFISH. That is right.

Mr. McKEOUGH. Now, I will assume for the purpose of getting to some practical result that you are satisfied, and when I say "you" I mean the lending institutions, and that the other program will likewise be satisfactory to the fellow that borrows.

Now, based on your wide experience of the building subject, from the loan viewpoint, are we in a position in your judgment to anticipate a real pick-up in the building construction field?

Mr. BODFISH. Congressman McKeough, I want to give you an entirely candid and honest answer.

Mr. McKEOUGH. That is what I want.

Mr. BODFISH. I do not believe you are going to get a major pick-up in the construction of homes until there are some further and substantial adjustments in costs and in rents so that it is economically desirable for a family to buy and build, or build and buy, as contrasted to renting existing property.

It just seems to me like a 2 plus 2 proposition. The problem of building today is not finance. Finance is marching up and down the land in the small-home field looking for reasonably safe high percentage long-term loans. The problem is customers.

Mr. McKEOUGH. Well, I do not think it is alone the customer, but I won't dwell on that.

You testified to that experience gained in Great Britain in its building program, and indicated that the labor side of the cost was pretty well stabilized over several years. I wonder whether or not in your judgment the annual wage feature referred to in the President's message on housing is just a mirage or whether it is a practical hope.

Do you think it is impossible in this country to work out a solution as to cost from the labor side and material side in the construction particularly for small home-owner occupants?

The thing I have in mind in offering that question is, Great Britain is as highly organized in the labor field, as we are, if anything, I think a little greater. They were able to work it out in England, and I wondered if it is your opinion that it is a hopeless situation here.

Mr. BODFISH. Congressman McKeough, I wouldn't want to imply that anything that President put before Congress was a mirage, nor do I think it is impossible to make some progress in connection with building costs.

I think that unless you set forth a legislative declaration of policy and provide some orderly procedure in your legislation for those negotiations and for those plans and new relationships, I am afraid nothing much will come of that proposal.

Mr. McKEOUGH. It is obvious that we of the Congress could not enact into this proposed statute a statutory requirement of annual wage. That is quite obvious. We might suggest the practicability of having that approach.

Mr. BODFISH. And you might suggest or insist that it be considered as you are putting the Federal Treasury behind no end of these loans. Government guarantee is going to finance the large projects and you might make a start by some sections on labor relationships or approaches to a better annual wage in case you are going to put the Federal Treasury behind money that is going to finance it.

Mr. McKEOUGH. Let me ask you this: Do you think it would be any more difficult to invite the consideration of labor to make this contribution than it would be to have the materialmen and the lenders make it?

Mr. BODFISH. I think we have. I think we are going to. I think we have been making ours as interest rates have been falling, and they are continuing to fall. I think they are even going to fall farther as far as the material people are concerned——

Mr. McKEOUGH (interposing). Well, when you say you have been making yours, what are your average income rates for the last 3 years, say?

Mr. BODFISH. You mean on our mortgage portfolios?

Mr. McKEOUGH. For single-owner-occupant dwelling.

Mr. BODFISH. If I had to estimate it I would say about 6.3 percent. For example, as to an institution of which I happen to be president, in Chicago, the income of the mortgage portfolio is 5.7.

Mr. McKEOUGH. Let me say then, do you think in the light of the present rates on money, those that have applied for the last 3 or 4 years, that you feel that you have made a large contribution as to 6.3?

Mr. BODFISH. I do not hestitate to say that is. A substantial contribution has been made, because the high percentage loans——

Mr. McKEOUGH (interposing). Let us assume now that you have, and that is a matter on which I reserve judgment.

Mr. BODFISH. All right. Of course they are much lower than that on conservative loans. You understand on 40- and 50- and 60-percent loans the prevailing rates around this country are anywhere from 4.5 to 5½. We are making 5-percent loans in any number of our institutions where there is a low-risk factor.

Mr. McKeough. Just based on that magic figure of 6.3, could not the Congress approach this problem with as much hope of getting labor to make its contribution as you testify you think your institutions have?

Mr. Bodfish. Well, I do not know. I have had very little experience dealing with labor, and I know you gentlemen's judgment on that is better than mine. I do not know what can be done as a practical matter with the cost system.

Mr. McKeough. I am a Member of Congress who feels this way, to be fair with you, Mr. Bodfish, that in spite of what has been said about labor I think it is as reasonable an agency as there is in the country.

I think that it will make its contribution as willingly as any other group, and I have every reason to feel justified in that conclusion by reason of the experiences arising out of the last great World War. No group in America made any more substantial, patriotic contribution than did labor, and I look upon the problem that now confronts the Nation as not a partisan one but one that must call for real patriotism. Patriotism usually is associated synonymously with sacrifice and contributions, so I am hoping that all groups—you, the lender, the materialmen, labor—will work together in a spirit of cooperation to bring about a revival of industry through a comprehensive practical program of home-owner and other construction. I wanted to get your views, and I am grateful to you for giving them.

Mr. Bodfish. I assure you, Mr. Congressman, that is the spirit in which we come before the committee.

Mr. McKeough. I think so.

Mr. Bodfish. For example, this 90-percent loan—we know that the money lender is going to be scared to death at that.

Mr. McKeough. Suppose he is?

Mr. Bodfish. We sat down there and we worked out a suggestion based on the British pattern we thought might work and get results.

Mr. McKeough. And I might tell you, since you made a reference to the money lender, that his contribution has been the saddest of any group in the Nation. He has been as wrong as any group I know, in judgment and in practical contribution and cooperation, and I do not mean the building and loan associations or any particular unit in the group, but if we were depending upon his philosophy and his real and substantial contribution in the way of patriotism we would be in a bad fix.

Mr. Spence. Mr. Bodfish, you said that you thought that the building associations should be allowed to take advantage of title I. Why do you think they ought to be allowed to take advantage of that title?

Mr. Bodfish. I think if we are going to put a lot of emphasis on repair and modernization and the improvement of existing properties, as our institutions have been very close to that type of business——

Mr. Spence (interposing). Have they been making many loans of that type and character?

Mr. Bodfish. We make quite a few of them. Very few are insured under the original title I. We merely want to make sure we are under that picture and can participate and our institutions participate properly.

Mr. Spence. It is often necessary for you in that type of loan to insure your property on the preliminary report, is it not?

Mr. Bodfish. Well, we make that kind of loans in our orderly course of business, and we see no reason why they should be insured for other instutions and not that same protection given to us. We are going to make them, we are making them right now, regardless of title I.

Mr. Spence. I say is is often necessary for you in that type of loan to insure your property on the preliminary report, is it not?

Mr. Bodfish. That is ture.

Mr. Williams. You are in the law, are you not?

Mr. Bodfish. We were mentioned in the law, but it was some months, Congressman Williams, before the regulations were so adjusted that the institutions, who by law in every State in the Union must take security for their advances, were proceeding under that.

Mr. Williams. In other words, the instutions that were insured under title I included building and loan associations?

Mr. Bodfish That is right.

Mr. Williams. And of course what you want is to stay in the picture and have it continued?

Mr. Bodfish. We want to stay in the picture and have it continued. Mr. Chairman, is there any consideration to be given to anything other than amending the housing act? Is that out of question?

The Chairman. That will be a matter for the committee to decide when they get it. If any member decides to offer an amendment, he will be permitted to do so.

Mr. Bodfish. I do not want to press the point, but we want to continue to do our part of the job, and to do a good job, and we need some things done over in our phase of the picture, if you want us to expand our business.

(Discussion off the record.)

Mr. Bodfish. In accordance with the suggestion of Chairman Steagall that some supplementary data might be helpful in the record with regard to some of the points discussed orally before the committee, I am submitting some supplementary materials dealing with (1) The British Housing Boom, an article taken from the London Economist in 1935, one of the most reliable of British business publications, as exhibit A; (2) an article by John Laing, of John Laing & Sons, which discusses the present building society financial arrangement in Great Britain; (3) article from the Federal Reserve Bulletin of April 1937, dealing with interest rates charged by member banks and indicating that real-estate loans in banks carry rates ranging from typical 6 percent to 8 percent in the Dallas Federal Reserve District and 6 percent to 8 percent reported by other southern and western districts; (4) a resolution of the recent convention of the United States Building & Loan League indicating the general attitude and policy with regard to the need for small, inexpensive homes; and (5) a table showing the number of building and loan associations, membership, and assets for the year 1936.

The Housing Boom—I

(From the London Economist, October 26, 1935)

There is an increasing consensus of opinion that the remarkable expansion of building activity during the past 3 years has been a major factor—indeed, the major factor—in British economic recovery. The full acceptance of this fact has coincided with an almost equally widespread belief that a collapse in building

may shortly reverse the trend and initiate another cycle of depression. The truth or falsity of this prediction is of the utmost importance to all who are compelled to base their actions upon a forecast of the future. In this and a following article, accordingly, an attempt will be made to analyze the causes of the sustained activity in the industry and to discuss the factors which will determine its future course.

Several facts about the housing boom can be very briefly recorded. First, it is certainly a boom—never before have houses been built at a rate approaching that of the present time. Second, it is a housing boom and not a building boom. Judging by the figures of plans approved by local authorities, building other than residential was below the level of 1929 until the beginning of the present year and is not very much above that level even now. The building of dwelling houses, on the other hand, is running at almost double the 1929 level in value—which means more than double in volume, in view of the fall in building costs. Third, the houses built in such unparalleled numbers are not in the main those of the very cheapest class. Out of 286,050 houses built in the year 1934–35 by private enterprise without state assistance (which comprised 87 percent of all houses built) only 105,344 were in the cheapest class, and of these 105,344 only 33,103 were built to let.

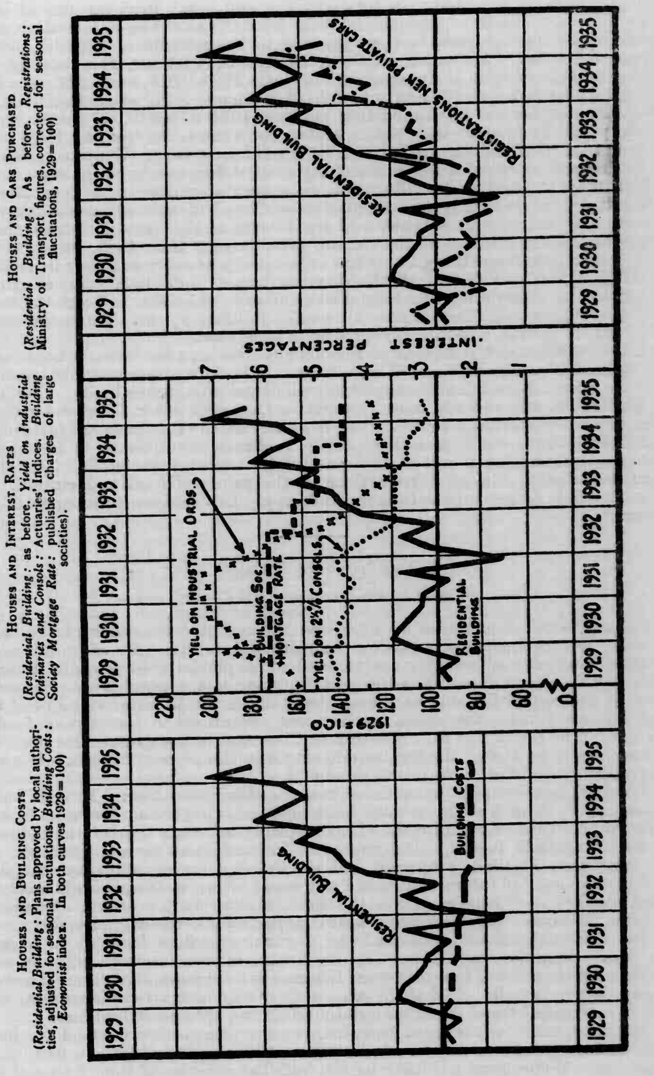
The phenomenon to be analyzed is consequently the emergence of an enormous demand for new houses on the part of the middle and lower middle classes. The increase has been fairly well spread over the country, and was actually slower in getting under way in the prosperous south than in the depressed areas. The suddenness of its emergence can be seen from the curve of plans passed by local authorities for the construction of dwelling houses which appears in each of three graphs at the foot of this page. The figures are shown quarterly, in the form of an index number (the average of the year 1929 being 100), and have been roughly corrected for purely seasonal fluctuations. From 1929 to the middle of 1932 the curve is almost level. With the exception of the "crisis quarter" at the end of 1931, it only once either falls to the 1929 level or exceeds it by more than 20 percent. Suddenly, in the last quarter of 1932, the curve rises to 131. Since the middle of 1933 it has never been below 150.

What was the cause of this radical change? The charts may afford some guidance in this respect. The first compares the course of residential building with that of building costs, based on the Economist index, which may, on the whole, tend to exaggerate the fall in the costs of those types of house most prominent in the boom. It appears wholly out of the question that the reduction of costs can have been a major causal factor. It is impossible to suppose that demand for houses is so elastic that a 100-percent increase can be evoked by a 10-percent fall in costs.

The second chart compares building activity with the course of interest rates, to which there is a strong prima facie case for ascribing the boom. The rise of the building curve is certainly preceded by a fall in the yield on industrial ordinary shares and on gilt-edged securities. The buyer of a £600 to £700 house, however, does not usually hold many industrial ordinary shares and his average holding of gilt-edged is small. The curve of rates charged on mortgages by the large building societies is more relevant. Though the tendency to lengthen the term of mortgages may have slightly reduced the over-all charge to borrowers for some years before 1932, the effect of this was almost certainly very small. The actual mortgage interest rate did not fall until August 1932, and then only to 5½ percent. It would be contrary to the whole experience of the building societies to suggest that so small a reduction in interest rates should in so few weeks have produced so substantial an increase in building. Moreover, building other than residential, which could be expected to react both more quickly and more fully to cheap money, showed virtually no increase until the beginning of 1934. In view of all these facts it seems reasonable to assign to cheap money a much smaller role in the causation of the boom than might be thought at first.

The third chart compares residential building with the registrations of new motor cars—an index almost completely unaffected by cheap money. The two curves (both of which are roughly corrected for seasonal fluctuations) show a remarkable similarity. Both were fairly level, though tending to decline, throughout 1930 and 1931. Both suddenly shot up well above their previous highest points in the last quarter of 1932. Although motor-car registrations appeared to hang fire in 1933 both curves have remained well above their 1929–31 level ever since. This close correlation suggests a strong presumption that the major cause was the same in both cases. What was this cause?

THE COURSE OF THE HOUSING BOOM



The summer of 1932 was, in fact, associated with a wave of more favorable psychology, following the war-loan conversion scheme and the Lausanne Conference. This "convalescence of confidence" released a large volume of spending power hitherto pent up by fear, but it was the confidence of the consumer. Residential building picked up; factory building did not. Registrations of private cars increased; those of commercial vehicles did not. The explanation is that when confidence returned to the consumer in the autumn of 1932 he had more money to spend. According to Colin Clark's calculations, the total of wages and salaries, which on the average of the years 1924, 1926, and 1927, was £2,207 millions, had fallen in 1932 only to £2,143 millions—a fall of £64 millions. But Mr. Feavearyear has calculated that between 1924–27 and 1932 the expenditure of the public on food, clothes, liquor, and tobacco had fallen from £2,115½ millions a year to £1,797 millions, a fall of £318½ millions a year. Caution is necessary in basing precise calculations on relatively small differences between large numbers which may themselves be subject to an appreciable margin of approximation. That there has been a large increase in the "free" margin of purchasing power, however, is scarcely disputable, and the figures as they stand suggest that the wage and salary earners of the nation, after buying their food, drink, tobacco, and clothes, had something like £250 millions a year more left over in 1932 than in 1924–27. The value of all the dwelling houses built in a year, even at the present rate, is probably less than £200 millions, while the value of the total of new private cars registered is only about £50 millions a year. The increases since 1932 are, of course, considerably smaller in each case.

The causation of a complicated phenomenon such as the housing boom cannot be explained by any one fact. The reduction in building costs and in interest rates and the return of confidence undoubtedly all contributed to the boom. Confidence, in particular, was perhaps more responsible than any other element for the fact that the boom started precisely when it did. But the fundamental fact, without which the others would have been futile, is almost certainly to be found in the increased purchasing power of the mass of the consuming public. And that in turn was due to the great reductions in the prices of food and clothes. In a second article an attempt will be made to apply this analysis to prospects for the future.

The Housing Boom—II

(From The London Economist, November 2, 1935)

In last week's Economist we discussed the extent and origins of the housing boom. We reached the conclusion that although falling costs of building, lower rates of interest, and reviving confidence had all played their parts in its generation, the dominant factor was the great increase in the purchasing power of the mass of the population, due on the one hand to the comparative stability of wages and salaries and on the other to the great reductions in the cost of food and clothes. The boom was thus due to a real increase in the demand for houses and not primarily to any of the factors entering into the price of houses. It remains to apply this conclusion to future prospects.

The factors of smaller importance may be eliminated first. Though building costs already show a slight upward tendency, following recent increases in wages, it is unlikely that changing costs will perceptibly influence the volume of building in the immediate future. The course of interest rates is unpredictable. The tendency may be slightly upward, but the building society mortgage rate is one of the "stickiest" of interest rates and any rapid return to the pre-1932 level seems most unlikely. "Confidence" is the most elusive factor of all. Commercial opinion, however, has been remarkably unperturbed, recently, by the menaces of the international situation and the disturbing factors incident to a general election. Summing up, we may conclude that tendencies have become, on the whole, slightly adverse to a continued increase in building activity, but the change, if any, is very small. And if the argument of our first article is correct, only a major reversal of trend could materially affect the volume of building.

Attention may be confined, therefore, to the prospective demand for houses. This springs from two causes—desire for new houses and ability to finance their purchase. Widespread publicity by the building societies of their financial facilities may have influenced recent events under both headings, but since 1932, at least, the really decisive factor has been the great reduction in the prices of the necessities of life. Are food prices likely to rise rapidly or substantially? Disequilibrium in world agriculture is unlikely to be speedily overcome, and, although British food prices are at the mercy of agricultural protectionism, it is unlikely that any government would be ill-advised enough to engineer a substantial increase in the price of food in general. Cheap clothes are the result of cheap textile raw materials and far-reaching technical developments in the clothing trade. Wages and salaries, on the other hand, are again on the upgrade. On balance, public ability to buy new houses does not seem to be seriously threatened.

What of desire? In the volume on housing in the 1931 census reports, the registrar-general estimates that, in 1931–41, the increase in "families" will require 771,000 more dwellings. (The "family" in this sense does not necessarily refer to any particular degree of consanguinity, but merely to a group of persons living together.) Allowing 300,000 for rehousing of slum dwellers and 100,000 for ordinary replacement, the registrar-general reaches a total of 1,200,000. If additional houses are built to provide separate dwellings for all families and to restore the percentage of vacancies to the normal pre-war level, a maximum estimate of 1,700,000, or 170,000 a year, is reached. The Economist (March 31, 1934) made an estimate not of the prospective firm demand for houses, but of the need for houses if a certain standard of housing were to be attained, the standard being the housing of the whole population "within a generation from the present in dwellings, large, sanitary, and pleasant enough to make decent living possible." In the two decades 1931–51, this envisaged 1,020,000 houses for overtaking the existing shortage, 714,000 for the prospective increase in the number of families, 1,000,000 for slum clearance, and 3,760,000 for obsolescence, making a total (for England and Wales) of 6,594,000, or 330,000 a year.

The actual rate of construction in the 4 years April 1931–March 1935 was, on the average, 249,000 houses a year, and in the last 2 years of the period 297,000 houses a year. This greatly exceeds the registrar-general's figure and approaches the "ideal maximum" of the Economist. Of the latter, moreover, more than half was due to replacement, and there has been no indication in the last 4 years of any significant increase in the numbers of houses demolished. Slum clearance is increasing, but over the 4 years has probably been below the registrar-general's figure. The proportion of vacancies, though not easily ascertainable, does not seem to be increasing rapidly. None of these factors—replacement, slum clearance, increase in vacancies—has been responsible for the boom. One is driven to conclude that an unexpectedly large increase has occurred in the number of families—i. e., of units requiring separate dwellings. The registrar-general estimated an increase of 771,000 families in 10 years, but there has been an increase of nearly 1,000,000 in 4. This most significant social phenomenon is explainable only by a widespread tendency for families to "split"—for married children to cease living with their parents, for mothers-in-law to set up for themselves, and for lodgers to move into flats. A movement such as this, with its roots in the social life of the people, is not likely to come to a sudden end. But the 600,000 or so families that have appeared since 1931 in excess of the number predictable on the basis of birth and marriage rates, represent something like 6 percent of the total number of families. On general grounds, we can scarcely assume the indefinite continuance of so rapid an increase.

If the social movement behind the housing boom were to decline and disappear, the normal increase in families could be accommodated in less than 100,000 houses a year—a rate of building only about one-third that of the present. Where is a continuing demand for the other 300,000 houses to come from? The most obvious answer is—from slum clearance and the abolition of overcrowding. Since present programs do not envisage building at this rate, there is the strongest economic argument for speeding up current efforts and widening contemporary definitions both of slums and of overcrowding.

There is, however, another potential string to the housing bow. In Great Britain the present rate of replacement is almost negligible. The demolition of a dwelling house in order that another may be erected on its site is the rarest of occurrences. This general attitude is reflected in the registrar-general's estimate of housing requirements, which allows 10,000 houses a year for the replacement, through obsolescence, of 10,200,000 existing dwellings—an average expectancy of life of a fraction over 1,000 years! Nobody, however, would maintain that the average of housing accommodation in this country was satisfactory or even adequate. In many respects—including sanitation, amenities, and external and internal appearance—we are far inferior to many nations with a lower general standard of living. Replacement has been discouraged by successive factors: A rapidly expanding population, the post-war shortage of houses, and, finally, improved transport facilities, which have encouraged extra-urban building. These reasons are losing force today, but the rate of replacement will probably increase very slowly, since the price differential between old and new property

is not nearly large enough to make demolition and rebuilding economic except in special circumstances. Official intervention to buy up old properties is undesirable, since it would tend to maintain their market value, which is the opposite of what is desired.

The outlook is, then, for a decline in building activity. The increase in families will probably taper off slowly. A really vigorous policy of housing for the poor could do much to fill the gap, but even at its maximum it would hardly amount to 200,000 houses a year. The other potential source of demand for houses is through obsolescence. It is not inconceivable that we are on the verge of far-reaching developments in building technique which will materially reduce costs and accelerate obsolescence and replacement. In their absence, however, it is unlikely that increased replacement demand can develop rapidly enough to maintain the present level of building. On the other hand, most of the phenomena discussed in this article are slow moving. A sudden reduction in building activity would presuppose either a rapid increase in food prices or a collapse of confidence. And there is every reason to hope that we shall avoid both.

Quality Builders Can Develop Low-Price House Business on Industry Scale

(Address by John W. Laing, chairman of directors of John Laing & Son, Ltd., of London, England, before the joint luncheon meeting of the New York Building Congress, Inc., and the Committee for economic and Social Progress, Inc., held at the Hotel Astor on Wednesday, September 29, 1937)

I am visiting your land to learn as much as ever possible, and appreciate very much all the kindness shown to me and am very pleased to reciprocate, as far as I am able. You have asked me to speak on housing in Britain, and gladly do I respond to the invitation.

I consider that the providing and building of homes for the lower-paid middle class and the manual worker is the highest national service that the building trade can render.

This opinion is an unbiased one, as my own firm not only employs between 1,000 and 2,000 men on housing, but has under construction at the present time aerodromes, factories, office blocks, and a hospital, of a total value of about $20,000,000. Of the many varieties of work, however, there is none that gives such pleasure as the developing of estates and building the smaller type of house for sale.

To avoid the use of the word "Britain" too often, when I say "we" it is short for Britain.

Since the war, we have built about 3,000,000 houses, of which 2,000,000 were by private enterprise and 1,000,000 were subsidized by the Government and municipalities, who usually employ building contractors to construct the houses for them. Recently private enterprise has built about 250,000 houses and the municipalities 60,000 each year. The private enterprise houses are generally sold for owner occupancy, while the subsidized houses are let at a weekly rent.

There was in Britain, a generation ago, a group of pioneers, one of whom Sir Raymond Unwin, I am very pleased to see in this meeting. These made prominent endeavor to arouse in Britain a housing spirit. As a result of their labors people of good will of all political parties are now united in a housing spirit. Although there may be changes of government, no party desires to alter our housing program; which is that every family must have a healthy home to live in, that we cannot afford the disease, crime, and other evils which result from slum housing.

There is a small minority of the families of Britain whose incomes are so low that they cannot afford to pay the commercial rent for a healthy home and we cannot afford to let them live in unhealthy houses and therefore some subsidy is necessary in their cases.

If we were beginning our housing program over again we could avoid some of the errors which were made.

1. At the beginning our subsidy houses were built too expensively and about half the national subsidy of housing was caused through the first 200,000 houses built. After that time, the architects, the builders, and the workers have worked together. The architects design economical, healthy houses and builders have adapted their businesses for housing and the workers through continuity of employment have become more efficient. Then houses are being produced economically.

2. With regard to private enterprise houses, it is realized now that these could have been improved if there had been greater collaboration between architects and builders so that the houses built by private enterprise should have simple beauty.

3. Every care should be taken to insure that private enterprise provides good quality homes.

4. If we had known at the beginning as much as we do now, the builders and the representatives of the Government would no doubt have met and the builders would have stated what was the cheapest house that private enterprise could provide, and a more or less definite line would have been drawn as to what income people should be helped by subsidy and what income people could be catered for by private enterprise. The importance of deciding this line is that uncertainty as to what property will be subsidized hinders enterprise.

A working family cannot afford to pay more than a quarter of their income for their house. In Britain, private enterprise can provide a good home for $4 a week in the provinces and $5 in London. Probably in America, $6 per week would be your most economical figure. Thus it should be realized that private enterprise could cater for all classes with an income of $24 or more per week, while those with incomes below that might require to live in subsidized houses. Before leaving the subsidized house, I might mention that the average rent in Britain for a four-room municipal house, consisting of a living room and three bedrooms, working kitchen, a bathroom, and a good garden, is $3 per week in the provinces and $4 in London. This can now be provided by the municipalities without a subsidy owing to increased efficiency and cheaper interest for loans. So all subsidies have been withdrawn except where providing houses for the very poor who cannot afford to pay even these rents and for such they have a reduced rent system where it is an absolute necessity.

Thus in Carlisle, which is my native town, the rent is where necessary reduced to one-fifth of the family's income less 12 cents per week off this rent for each child of school age, with a minimum rent of $1.25 per week. Thus, an old couple with $6 a week income gets a small but healthy home for $1.25.

If builders of repute and capital would undertake private enterprise housing on a large and efficient scale, I believe it would be found that they could cater for 85 percent of the small house group, leaving only 15 percent to be dealt with by subsidy. Regarding the subsidy house, you can consider whether it is in your national interest that these subsidies should be given to the municipalities and they organize these houses, or if it could be done better by limited dividend housing companies.

We do strongly recommend that as far as possible workers' homes should be in the form of houses rather than apartments or tenements and that the latter should only be adopted where it is absolutely necessary, that the worker should be housed very near to his work, in the center of a large town.

Beautiful homes and gardens only cost two-thirds as much as tenement homes and the man who is housed in the tenement is not nearly such a good national asset as the man with a separate home and garden.

We will now leave the question of subsidized houses and consider private enterprise which should deal with the bulk of the small-house trade provided that substantial builders would lay themselves out for this class of work.

Some good builders consider that housing is beneath their dignity but I submit this is not so. The firm with experience, capital, and character can honorably do the work. They can buy in bulk both land and materials and employ reliable, skilled workmen giving them continuity of employment and be satisfied with a reasonable profit, thus producing good houses almost as cheaply as the poor-class builder does bad ones. It will be found that purchasers, even of the smallest house, will buy good quality although it is somewhat higher priced.

If more of you quality builders take up the work, as I hope you will, have a definite system of inspection, let your head inspector be a high-salaried man, next to a director, and his duty be to insist on quality. In selling all your houses, undertake to maintain them in every way, except damage through sheer abuse, for a year and even after that time if any defect caused by bad work or materials should become apparent, don't hesitate to make it good. These services cost very little but they do increase confidence.

Keep your men on housing employed as regularly as possible, and do everything to encourage their interest in the work. We have found that regularity of work has reduced the labor costs 33 percent.

We have four social evenings each year for our leading men engaged in housing. About 300 of the leaders and salesmen attend and after a supper 1 of the directors gives an address. The four subjects last year were: Creating Confidence, Quality, Service, and Beauty.

The selling price of houses in Britain by private enterprise usually is between $2,500 to $5,000, and the cost of municipal houses, including land and roads, is $2,000.

The selling price of my firm's smallest semidetached house in London is $3,000. The purchaser in this case pays $200, after which his weekly outgoings for interest, repayment of capital over 20 years, and rates are $5.

A similar house in a small provincial town costs $2,500, and the weekly outgoings amount to $4. As compared with the rent of a less attractive municipal house in London, say about $4 and in the provinces $3. Thus it does not cost much more to buy a private house than to rent a municipal one.

Small, well-built house property is a good investment. For instance, the houses built by my father, 50 years ago, are all much more valuable now than when built. Houses that he was willing to sell 50 years ago when new for $600, are now being sold by us for $1,300.

Let us now consider some details of building by private enterprise. In the first place there is the provision of finance for the purchaser. This is usually done by a building society, though sometimes by insurance companies, private trusts, and municipalities.

The building societies give great national service. At the present time they have out on mortgage $3,000,000,000. They pay 3¼ percent tax free interest to shareholders, 2½ percent to depositors—the average being 3¼ percent—and they charge 4½ percent. Thus their margin to cover income tax, all expenses and reserves, is 1½ percent, which I consider is not excessive. In a normal case, they loan 80 percent of the cost of the house, but for two-thirds of the houses sold, they loan from 90 to 95 percent of the cost, the difference between the normal loan of 80 percent and the actual being guaranteed by the builder. This guarantee is usually supplemented by a cash deposit, the amount of which depends on the financial standing of the builder. Where good houses have been provided, the loss through these guarantees has been almost negligible.

Building societies by their sound finance and sympathetic treatment of borrowers, have built up a spirit of good will and confidence. I am not connected with a building society, therefore this testimonial is quite unprejudiced.

The other system of finance of which I wish to speak, is that by municipalities. This, I think, has great possibilities if the need is not satisfactorily met by building socieites. The Government borrows money and lends it to the municipality at 3⅜ percent, then the municipality lends it to the purchaser at 3⅞ percent. The amount of the loan in this case is 90 percent of the value of the house.

Finance required during construction depends on several conditions. One is whether the builder develops large or small areas. Some prefer estates of about 300 houses, which can be completed in about a year, and then move on to other districts. Others prefer to purchase large estates which take 5 to 10 years to develop. This means heavy capital outlay but it has the advantage of allowing land to be bought cheaply. Further, it has the great advantage that gradually a goodwill is created in the estate. Each purchaser recommends friends and thus selling costs are considerably reduced.

Another condition affecting capital outlay is speed in selling. A business with 10 small estates selling actively a total of 4,000 houses a year, could manage on a capital of $2,000,000. A business with 10 large estates selling slowly about 1,000 houses each year would require the same capital.

Following finance, our next consideration is the subject of land purchase. Wise land purchase is essential to success, and the following points should be borne in mind: The class being catered for, their income, and where they are employed, the means of access to and from the place of employment. Don't be tempted to buy land because it is priced at a low figure. The essential is convenience for business, and then the advantages are shops, schools, entertainments, places of worship, and attractice surroundings.

The lay-out of an estate is the next matter for consideration. Be willing to spend an extra $100 on each house for an attractive and well-planned lay-out. We endeavor to so plan that the majority of the roads run north and south. Thus the houses face east and west and all rooms and gardens get the maximum of sunshine. Provide open spaces, public gardens, and bush planted, or grass margins to the roads. In the original lay-out, reserve sites for all public purposes, such as schools, churches, public halls, shops, and place of entertainment. In our two most recent estates, we have set aside areas for factories and these have been a great help to the estates by providing work in proximity to the houses.

Let us now consider the principal points regarding the design of a house. Here utility is essential. Clothe utility as far as possible with beauty. My firm has been successful by using rustic bricks for walls, rustic hand-made tiles for roofs and simplicity of architecture. Every room must be of good shape and convenient in its relation to other rooms. They should be well lighted and sunny, the area of glass being about one-fifth the area of floors, and the windows should be so arranged that anyone sitting in a room can view the garden.

In the case of the cheapest class house, we build 10 or 12 to each acre of land. In other cases we built six or eight houses per acre.

Selling is a very important part of the business of house building. The cost of this varies very much and is dependent upon the position of the estate and the demand for houses. When the demand was very good and the estate in a popular district, our total selling costs were sometimes only $10 per house. Alas, for those good days! Now our average selling cost is 2½ percent of the price of the house. But even this average varies between 1 percent on the latter part of a popular estate and 5 percent in the early days of a difficult one.

I do wish I could adequately express to you, so that you might also become enthused, the pleasure experienced in the development of estates and the building of houses for investment or owner occupancy. To conceive and then carry through such schemes, with the assistance of architects and professional men, and afterwards to have the pleasure of visiting these developments from time to time, in company with your sons, and see hundreds of contented people in the full enjoyment of homes and gardens, makes a man feel that something worth while has been achieved. Many a man would pay a large sum to get such a thrill; but in this case the house owners pay you for it. It provides you with a great adventure and the best of fun, and yet people pay you for this happy experience, and in addition thank you for what you have done.

The people who purchase houses costing $2,500 to $6,000, are, I think, the most delightful to serve. Their first necessity, of course, is good food, and then a comfortable home. I wish I could convey to you the atmosphere of contentment and happy pride seen in some of these houses.

The confidence with which many of these people make the only investment they will ever be able to make, is surprising, and delightful to the bona-fide builder. Let us be satisfied with a reasonable profit—even a modest profit comes to a large sum when multiplied by hundreds and perhaps thousands of houses sold. Let us do everything possible to ensure that the confidence of the investor is not misplaced, but that the investment will prove a happy one, and one that will not depreciate.

I do wish to say about house building what the Church of England prayer book says about marriage: "It is not to be entered into unadvisedly, lightly, or wantonly * * * but reverently, discreetly, and advisedly."

The home instinct is one of the finest instincts of man and woman, and it behooves everyone who touches this business to feel that there is something sacred about it. Let us never, for monetary gain, take advantage of that instinct and so injure it.

There are three classes who should not be allowed to touch this work.

(*a*) The "get-rich-quick" type of man who calls himself a financier, but who jumps into a business for a few years, grabs what he can, and then clears out with his ill-gotten gain.

(*b*) Nor the "well-meaning individual" who thinks anyone can build houses. Building is a most highly skilled technical calling, requiring years of training and experience. The profits, expressed as a percentage on cost, are small, and an unskilled man will either lose money or injure the purchaser.

(*c*) Nor do we want the "impractical idealist" who will build freakish homes.

These all leave a trail of dissatisfaction which is a national loss, whereas satisfied house owners are a national asset.

I know of only two classes that can be trusted with the responsibility of building homes for the people. Naturally, I put first the good-class builder or building firm, who have made building their life work. But should these not be available, then I advise that companies be formed who would have as their directors well-known successful business men of repute, who would undertake directorship primarily as a service to their fellowmen and nation. Such directors would employ good men as managers and would protect the company from the three foregoing types.

Can the Government help? I consider that it can in two ways.

(*a*) Let it purchase land, by negotiation or compulsion, in large areas, at the cheapest price, and sell it to the builders at cost, for the erection of suitable houses. Competition will ensure in time that the benefit of this goes to the purchasers. If it were found, however, that the position was being exploited by the builders, then precautions would have to be taken.

(*b*) The Government should make, where necessary, loans to permit of house purchase, at the lowest possible rate of interest.

To conclude: there is no miraculous way of producing good, economical homes for the masses. Exploitation, high costs, dear money, bad construction, kill business and injure our fellow man. Let there be a combination of a sympathetic government, finance at a low rate of interest, wise planning to give utility and simple beauty, sound construction, building on such a scale as to provide steady employment for the workers and economical purchasing of materials and a reasonable profit; and, so produce houses which are such a good investment that no one will wish to leave them. This would permit the seller to accept a small down payment. By such means the building of small houses can be made a great and worthy industry in the same way as the production of good low-priced cars has developed the motor industry.

In conclusion, I would remind you that the strength of America, as with Britain, lies in the value set upon the home life of the Nation, and to this end it is of the greatest national importance that as many of our countrymen as possible should be satisfied house owners.

Interest Rates Charged by Member Banks

(From the Federal Reserve Bulletin, April 1937)

Results of a recent survey made by the Board of Governors and the Federal Reserve banks with regard to interest rates charged by member banks indicate that as of last October the rate most frequently charged by banks on loans to their customers was 6 percent. In the larger cities a rate of 5 percent and frequently considerably less was common, while at many country banks the most common rate was 8 percent. It would appear that the rates reported for last October were lower than those in effect in predepression days, when a 5-percent rate was much less frequent and 10 percent was charged more often than at present.

The survey, which was made as of October 1, 1936, covered information as to interest rates charged by each member bank (1) on the largest number of loans of specified types, (2) on the largest amount of such loans, and (3) the lowest and highest rates charged. The inquiry was made as simple as possible in order to enable banks readily to comply with it from their records without the necessity of special compilations of figures. The results were compiled to show the rates reported most frequently under the various headings, treating each bank as a unit without regard to size of bank or volume of loans made at the respective rates. As a consequence, the results of the survey show rates most frequently charged, rather than the average rate of interest actually received by member banks on the total volume of their customer loans. Small banks, which constitute a large proportion of the banks but account for a small portion of all loans, dominate the results. The fact is that the bulk of bank loans is made by relatively few large banks and to large borrowers at relatively low rates. Rates charged, as indicated by the survey, are, therefore, higher than the average returns earned by banks on their loans, as indicated by the banks' earning statements.

Rates charged greatest number of borrowers.—The single rate most frequently reported by banks as charged the greatest number of borrowers was 6 percent for all types of loans. In general, the rates charged the greatest number of borrowers were somewhat higher than rates charged on the largest volume of loans, because loans made at low rates to borrowers of the best credit standing, though not great in number, constitute a considerable proportion of the total volume of bank loans.

For central reserve city banks in New York and Chicago, as shown in the following table, no rates higher than 6 percent were reported. In New York City 13 banks reported 6 percent as the rate most frequently charged on commercial and industrial loans, but 7 banks reported rates of 1¼ or 1½ percent, 9 banks reported rates between 2 and 3¾ percent, and 9 others rates between 4 and 5½ percent as most commonly charged. Of the rates reported on urban property loans in New York City and in Chicago and on commercial and industrial loans in Chicago 5 percent is probably a representative rate.

Rates charged greatest number of borrowers, October 1936, central reserve city banks

[Number of banks charging rates indicated]

Cities and rates	Commercial and industrial loans	Loans on urban commercial property	Loans on urban residential property	Cities and rates	Commercial and industrial loans	Loans on urban commercial property	Loans on urban residential property
New York City:				Chicago:			
1¼–1¾	7	1	0	2–3¾	2	0	0
2–3¾	9	1	1	4–4¾	2	1	0
4–4¾	4	5	4	5–5½	5	4	6
5–5½	5	7	7	6	3	0	3
6	13	5	7				
Total number of banks reporting	38	19	19	Total number of banks reporting	12	5	9

At Reserve city and country banks, as shown in the following table, 6 percent was by far most frequently reported as charged the greatest number of borrowers on all types of loans. The next most frequent rate at banks in the Reserve and larger non-Reserve cities was 5 percent, which was especially common as to loans on urban real estate. In the smaller cities, however, country banks frequently reported rates of 8 percent and many borrowers were being charged 10 percent. The higher rates were especially common on agricultural loans.

Rates charged on largest volume of loans.—In view of the fact that large loans are usually made at lower rates of interest than small loans, rates charged the largest number of borrowers do not indicate what rates are paid on the bulk of the loans. Figures were obtained in the survey as to rates charged on the largest volume of loans of each class by each reporting bank. The results of this phase of the inquiry are also dominated by figures for small banks, since in compiling them each bank, whether large or small, was given equal consideration. Although, as brought out by the following table, significant differences are found when the banks are divided into classes, it is still clear that the most common rates reported as charged by member banks are generally somewhat higher than average rates actually earned by these banks on their loans.

Rates charged greatest number of borrowers, October 1936, Reserve city and country banks

[Number of banks charging rates indicated]

Classes of cities and rates	Commercial and industrial loans	Loans on urban commercial property	Loans on urban residential property	Loans on farm real estate	Agricultural loans
Reserve city banks and country banks in non-Reserve cities of over 100,000 population:					
5 percent	74	78	110	23	33
6 percent	330	222	282	155	110
7 percent	10	12	18	20	16
8 percent	22	5	7	7	22
10 percent	---	---	---	---	1
All other [1]	85	47	62	13	18
Total number of banks reporting	521	364	479	218	200
Other country banks:					
5 percent	89	190	425	386	37
6 percent	3,054	2,450	3,011	2,845	2,362
7 percent	706	293	448	418	723
8 percent	1,132	458	698	816	1,094
10 percent	347	78	137	198	634
All other [1]	223	115	207	202	99
Total number of banks reporting	5,551	3,584	4,926	4,865	4,949

[1] All other rates reported, including all fractional rates and ranges of rates.

Differences between these two sets of rates are due in part to the fact that rates actually earned relate to the total volume of loans, including open-market paper, brokers' loans, and personal loans, as well as commercial, industrial, agricultural, and real estate loans. The ratio of earnings to loans outstanding is also affected by loans on which interest may not be received by banks in the period covered. Rates actually earned apply to the first half of 1936, since complete earnings reports for the last half of the year are not yet available, but partial data for the last half of 1936 indicate that this difference does not affect the comparability of the two sets of rates. The differences shown in case of Reserve city banks and of country banks are due principally to methods used in compiling the figures.

Volume of loans and rates charged by member banks in 1936

[Amounts in thousands of dollars; rates in percent per annum]

Classes of banks	First half of 1936			Oct. 1, 1936; most common rate on largest volume of loans	
	Average volume of loans [1]	Interest earned on loans	Average rate earned	Commercial, industrial, agricultural loans	Real estate loans
Central Reserve city banks:					
New York City	3, 469, 549	40, 789	2. 36	1½	5–6
Chicago	494, 921	7, 983	3. 22	1½, 5	5
Reserve city banks	4, 356, 536	93, 153	4. 28	5	6
Country banks	3, 950, 815	111, 134	5. 62	6–8	6–8
All member banks	12, 271, 821	253, 059	4. 12	6	6

[1] Averages of amounts from reports of condition for three call dates: Dec. 31, 1935; Mar. 4, 1936; and June 30, 1936.

In New York City 1½ percent was commonly reported as charged on the largest volume of commercial loans, whereas the average rate earned by New York City banks (2.36 percent) was somewhat larger, reflecting the influence of other loans, including some commercial loans, made at higher rates. In Chicago it was not possible to select from the October survey a single most common rate because both 1½ and 5 percent were reported most frequently; the average rate earned, 3.22 percent, was midway between these. The most common rates reported as charged on the largest volume of loans by banks in Reserve cities were generally above the average rate earned in those cities, and the same is true for country banks. It is clear from the relationship shown and from other available information that member banks have made an appreciable volume of loans at rates lower than those reported as the most common rates charged on the largest volume of loans.

Rates in large cities.—Detailed analysis of the figures obtained by the survey show that many banks in large cities were making loans at lower rates, in some cases appreciably lower, than those reported by most member banks. In Boston, Cleveland, Richmond, Atlanta, New Orleans, Detroit, St. Louis, Minneapolis, and San Francisco, as well as in New York City and Chicago, the majority of banks reported rates on commercial and industrial loans of 4 percent or less charged on the largest volume of their loans, with 1½ percent frequently reported. In 35 other cities rates between 4 and 5 percent were reported more frequently than higher rates. Real estate loans at most banks in these cities were most commonly made at 6 percent, with 5 percent in a number of cases, especially in the central western cities and lower rates occasionally. Loans on commercial properties were in some cases reported at rates of 3 or 4 percent.

These 46 cities, in which customers' rates seem to be more sensitive to changing money-market conditions than in other cities, include all cities with Reserve banks 17 with Reserve bank branches, 8 other reserve cities, and 9 country bank cities with population of over 100,000. The country bank cities are mostly in the Boston and New York Federal Reserve districts. There were 8 Reserve bank branch cities, 16 other Reserve cities, and 35 country bank cities with population of over 100,000 not included in this list. In most of these excluded cities a rate of 6-percent was most common, but rates of less than 6 percent were found more frequently than at banks in smaller places.

Rates in Reserve cities by Federal Reserve districts.—The following table compares rates charged by banks in principal cities, other than New York and Chicago, by Federal Reserve districts. The first column shows the most common rates charged on the largest volume of their industrial and commercial loans by Reserve city banks as indicated by the survey of last October, the second column shows prevailing rates charged in October on the bulk of commercial loans by selected banks in Federal Reserve bank and branch cities as reported monthly to the Board, and the third column shows the annual rate of interest earned on loans by Reserve city banks in the first half of 1936.

Rates charged and interest earned on loans at Reserve city banks

Federal Reserve district	Most common rate charged on industrial and commercial loans, Oct. 1, 1936 [1]	Prevailing rate on commercial loans, Oct. 1936 [2]	Interest earned on loans first half of 1936 [3]
Boston	1½	3. 22	2. 88
New York	5	4. 40	3. 98
Philadelphia	5	4. 17	3. 58
Cleveland	4½	4. 04	4. 38
Richmond	5	3. 99	4. 62
Atlanta	4½	4. 14	4. 34
Chicago [4]	5	3. 22	4. 02
St. Louis	4	3. 66	3. 78
Minneapolis	1½	3. 61	3. 72
Kansas City	5½	4. 09	4. 46
Dallas	5	5. 07	5 00
San Francisco	5	4. 38	4. 90

[1] Most common rate reported as charged on largest volume of loans by Reserve city banks.
[2] Weighted average of rates charged by leading banks in cities with a Federal Reserve bank or branch, except New York City and Chicago.
[3] Ratio of interest earned (doubled to put on annual basis) to average amount of loans outstanding.
[4] Central Reserve city banks not included.

These three sets of figures generally show a reasonable similarity in each district, when allowance is made for differences in cities covered, in loans included, and in methods of collection and compilation. Prevailing rates in the monthly seiies and interest earned are more similar to each other than they are to the most common rates derived from the recent survey. Although rates in some districts are lower than in others there appear to be few marked geographical differences. The lowest rates seem to be charged by city banks in the Boston, Minneapolis, and St. Louis districts, while higher rates are charged in the Dallas, Kansas City, and San Francisco districts. Customers' rates reported by Reserve city banks in the New York and Philadelphia districts are higher than rates earned on loans, a difference that may reflect holdings of open-market paper, an appreciable volume of loans at low rates in a few banks, or differences in reporting rates charged. Since the two sets of figures shown for rates charged—most common rates and prevailing rates [1]—are based on data reported by individual banks with little or no allowance for volume of loans made at different rates, they are likely to be higher than rates actually earned, which are more influenced by the large loans and large banks. This does not seem to have been the case, however, in Boston and Minneapolis, where the rates reported as charged on the largest volume of loans are considerably lower than those earned and also lower than the prevailing rates reported monthly.

Rates at country banks.—At country banks there is less variation in rates charged than at city banks. At a large majority of country banks 6 percent is the most common rate charged on loans; in a great many banks 7 and 8 percent is more common, and 10 percent is not infrequent, especially on agricultural loans. A rate of 5 percent is seldom reported by country banks in cities of less than 100,000, except on real estate loans.

[1] Figures for prevailing rates are based on rates charged on prime customer loans of three types—commercial loans and demand and time loans on securities—as reported by large banks in cities containing Federal Reserve banks or branches. The method of computing the averages takes into account the relative importance of each of these types of loans and the relative importance of each reporting bank, as measured by total loans. In the district averages, the average rate for each city included is weighted according to the importance of that city in the group, as measured by loans of all banks in the city.

The following table shows, by Federal Reserve districts, the annual rate of earnings on loans at all country banks and the most common rates charged on various types of loans at country banks other than those in country bank cities with a population of more than 100,000. The reason that rates earned by country banks in the Boston, New York, and Philadelphia districts are considerably lower than the most common rates charged is probably that in these districts there are a number of larger cities with a country-bank status where rates charged are lower than in the smaller communities. In most of the other districts, except perhaps Minneapolis, the comparisons of rates reported as charged and rates earned seem reasonable, considering the various factors, previously mentioned, that may account for differences. At country banks variations in size of loans and in rates charged are smaller than at city banks, and the average rates earned on the total amount of loans are therefore more nearly comparable with rates charged on the largest volume of loans. The figures shown in the table are probably fairly typical, not only of rates charged on the largest volume of loans by all banks, but also of those charged largest number of borrowers.

Rates charged and interest earned on loans at country banks

Federal Reserve district	Most common rate charged,[1] Oct. 1, 1936, on—				Interest earned on loans, first half of 1936 [2]
	Commercial and industrial loans	Agricultural loans	Farm real-estate loans	Urban residential loans	
Boston	6	6	6	6	4.88
New York	6	6	6	6	4.94
Philadelphia	6	6	6	6	5.16
Cleveland	6	6	6	6	6.00
Richmond	6	6	6	6	5.68
Atlanta	6–8	8	8	6–8	6.32
Chicago	6	6	6	6	5.66
St. Louis	6	6	6	6	5.90
Minneapolis	7–8	7–8	6	6–8	5.48
Kansas City	8	8	6	6–8	7.58
Dallas	8	10	8	8	8.80
San Francisco	8	8	6–8	6–8	6.32

[1] Most common rate charged on largest volume of loans at country banks excluding banks in country bank cities with population of more than 100,000.
[2] All country banks; rate per annum.

. There is a marked geographical variation in rates among country banks. In the eastern and central western districts the prevailing rate is 6 percent. In the southern and western districts of Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco higher rates prevailed on commercial and agricultural loans—generally 8 percent, with 10 percent as most common on agricultural loans in the Dallas district. On real-estate loans a 6-percent rate was more nearly universal, with 8 percent ruling in the Dallas district and a range of 6 to 8 percent reported by the other southern and western districts.

A Resolution Adopted by the United States Building and Loan League at the Forty-Fifth Annual Convention Assembled, Los Angeles, Calif., October 1937

The public service which has always motivated the activities of savings building and loan associations urges that they do some audacious thinking and acting at the present time. The country needs small, inexpensive homes.

The United States Building and Loan League urges that its member savings, building and loan associations and cooperative banks direct their activities during the coming year to the financing of new homes for people with incomes reaching as low as $800 to $1,200 a year, depending upon the locality, and up through the middle-class incomes. We urge that they undertake the financing of some responsible builders of numbers of small houses whenever the builder can supply

bona fide buyers for the homes. We commend to their consideration the comparatively small risk which lies in the development of such home building in entirely new, protected communities and insist that this effort on our part can go further toward revising the technique of home building in favor of the family which forms the bulk of the need than all the government bureaus, surveys and experiments.

I hereby certify that the foregoing is a true and correct copy of a resolution duly adopted by the United States Building and Loan League at its annual convention held in Los Angeles, Calif., on the 8th day of October 1937.

H. F. Cellarius,
Secretary-Treasurer.

TABLE 1.—*Summary tables of number of associations, total membership and total assets of savings, building and loan associations, by States, 1936*

	Number of associations			Number of members				Amount of assets			
	State	Federal	Total	State	Federal	Total	Increase (+) or decrease (−) of total over 1935	State	Federal	Total	Increase (+) or decrease (−) of total over 1935
Alabama	28	15	43	9,916	4,490	14,406	−10,220	$12,007,253	$3,697,595	$15,704,848	−$1,122,097
Arizona	2	1	3	1,000	201	1,201	−32	410,855	755,820	1,166,675	+636,103
Arkansas	27	36	63	4,984	4,618	9,602	−863	4,301,907	7,100,025	11,401,932	−808,232
California	132	67	199	239,266	24,648	263,914	−17,332	230,984,385	47,096,673	278,081,058	+2,970,536
Colorado	41	22	63	26,422	6,502	32,924	−774	20,582,442	8,259,609	28,842,051	−2,983,624
Connecticut	38	15	53	26,694	3,512	30,206	−104	21,689,478	5,105,980	26,795,458	+1,913,565
Delaware	42	-------	42	15,600	-------	15,600	−400	12,558,147	-------	12,558,147	−308,511
District of Columbia	27	-------	27	122,984	-------	122,984	−4,196	113,270,492	-------	113,270,492	+5,942,492
Florida	52	48	100	8,000	8,352	16,352	+2,110	7,242,978	18,568,311	25,811,289	+10,471,978
Georgia	20	42	62	9,373	9,672	19,045	+2,790	5,362,037	9,004,929	14,366,966	+3,593,916
Idaho	5	8	13	3,000	5,884	8,884	+1,225	1,327,998	4,513,790	5,841,788	+2,043,426
Illinois	770	93	863	311,340	35,997	347,337	−166,458	298,475,954	56,593,295	355,069,249	+7,849,424
Indiana	244	57	301	98,553	68,363	166,916	−98,788	85,606,858	68,858,835	154,465,693	−28,332,008
Iowa	68	32	100	36,954	6,273	43,227	−4,109	33,145,990	5,547,752	38,693,742	+809,546
Kansas	136	19	155	89,638	4,337	93,975	−7,308	72,801,788	5,473,252	78,275,040	−3,099,096
Kentucky	139	43	182	80,991	36,549	117,540	−35,033	58,937,366	40,582,300	99,519,666	−10,521,063
Louisiana	89	12	101	108,885	5,559	114,444	−7,891	88,404,672	10,633,080	99,037,752	−4,200,868
Maine	36	6	42	24,120	319	24,439	+4	22,338,293	167,337	22,505,630	−299,930
Maryland [1]	900	17	917	211,000	8,254	219,254	−191	142,000,000	11,752,682	153,752,682	+3,961,736
Massachusetts	213	6	219	392,361	1,850	394,211	−1,471	456,196,954	5,048,489	461,245,443	+489,109
Michigan	57	21	78	100,369	10,795	111,164	−50,221	97,659,218	14,093,893	111,753,111	−13,274,095
Minnesota	51	31	82	31,846	23,718	55,564	−6,455	21,450,816	21,270,299	42,721,115	+7,606,346
Mississippi	27	19	46	4,200	2,367	6,567	−298	5,147,531	2,004,667	7,152,208	+9,278
Missouri	189	38	227	140,000	20,966	160,966	−21,192	100,742,427	29,151,676	129,894,103	−5,154,201
Montana	25	1	26	19,978	32	20,010	+7,654	11,091,511	67,226	11,158,737	−224,565
Nebraska	78	15	93	[2] 83,800	3,045	86,845	−46,826	72,305,708	4,071,294	76,377,002	−11,079,436
Nevada	5	-------	5	1,250	-------	1,250	−50	1,043,599	-------	1,043,599	+42,359
New Hampshire	28	2	30	13,452	3,610	17,062	−1,229	10,906,461	4,607,002	15,513,463	−1,786,359
New Jersey	1,498	-------	1,498	641,890	-------	641,890	−59,057	883,477,982	-------	883,477,982	−64,693,847
New Mexico	14	9	23	3,383	765	4,148	−1	3,426,866	786,447	4,213,313	+264,469
New York	228	58	286	348,944	90,071	439,015	+8,052	263,414,498	99,984,418	363,398,916	+8,740,037
North Carolina	174	12	186	87,243	3,768	91,011	+11,316	60,313,504	5,722,038	66,035,542	+5,749,783
North Dakota	19	5	24	13,112	1,683	14,795	−210	8,508,305	1,328,449	9,836,754	+593,523
Ohio	642	91	733	1,020,133	115,080	1,135,213	−232,064	659,645,831	132,779,427	792,425,258	+31,078,797
Oklahoma	46	31	77	14,996	24,548	39,544	−5,788	20,320,162	36,563,533	56,838,695	−1,836,775
Oregon	15	22	37	18,160	8,236	26,396	+1,689	14,191,717	7,115,638	21,307,355	+2,247,649
Pennsylvania	2,370	38	2,408	577,150	9,330	586,480	−78,645	647,700,032	11,524,685	659,224,717	−89,511,438
Rhode Island	8	1	9	47,369	-------	47,369	+1,681	34,365,368	-------	34,365,868	+1,071,710
South Carolina	51	26	77	8,000	7,463	15,463	−5,697	7,890,457	7,643,845	15,534,302	−4,990,897
South Dakota	14	5	19	5,550	1,397	6,897	−190	3,330,679	1,137,166	4,467,845	+124,893
Tennessee	18	37	55	11,800	11,160	22,960	−101	8,321,714	13,173,132	21,494,846	+3,901,060
Texas	94	88	182	52,343	10,565	62,908	−43,702	59,246,445	18,468,693	77,715,138	+1,605,243
Utah	16	4	20	25,000	1,631	26,631	−23,539	24,211,084	1,437,614	25,648,698	−2,378,407
Vermont	12	2	14	4,992	566	5,558	−38	4,248,820	757,420	5,006,240	+82,630
Virginia	77	21	98	42,800	5,661	48,461	−1,469	34,250,018	8,781,037	43,031,055	+414,481
Washington	36	36	72	77,593	71,784	149,377	−5,783	18,552,791	26,142,712	44,695,503	+3,758,818
West Virginia	47	21	68	21,300	7,512	28,812	−6,671	14,816,377	9,185,153	24,001,530	−1,468,043
Wisconsin	180	28	208	180,788	3,353	184,141	−12,216	181,753,288	5,045,074	186,798,362	−6,418,722
Wyoming	5	9	14	8,000	745	8,745	−1,010	3,932,868	1,290,757	5,223,625	−265,710
Hawaii	11	1	12	24,000	268	24,268	−2,495	4,797,747	382,200	5,129,947	+10,121
Alaska	-------	1	1	-------	-------	-------	-------	-------	-------	-------	-------
Grand total	9,044	1,212	10,256	5,450,472	675,499	6,125,971	−923,596	4,968,710,171	773,225,259	5,741,935,430	−146,774,896

[1] Estimated.
[2] Not including borrowers.

The CHAIRMAN. I want to thank you very much for your able statement.

Mr. Ramspeck, will you please come around? Gentlemen, this is Congressman Robert Ramspeck. I do not need to introduce him. He had asked to appear before the committee for 5 minutes, and I know we shall be glad to hear him.

STATEMENT OF HON. ROBERT RAMSPECK, MEMBER OF THE HOUSE OF REPRESENTATIVES FROM THE STATE OF GEORGIA

Mr. RAMSPECK. Thank you, Mr. Chairman. I want to thank you and the committee for the opportunity to appear here in support of the President's recommendation for the reenactment of title I of the Housing Act, and especially do I want to urge upon the committee consideration of permitting under that reenactment of title I the construction of new dwellings at a cost not exceeding $2,000.

My reason for that, gentlemen, is this; that under title I, when it was in existence, some of the banks in my district made loans for new construction, and they found it a most satisfactory practice. The loans were satisfactory and enabled people of small means to build small houses in the suburban and rural sections of my district.

Under title II of the act that type of people have no opportunity to participate, because they are not in position to finance the more expensive dwellings that would have to be built in accordance with the specifications and rules governing title II, but the building material people and bankers who made loans in my district under title I tell me that they got more real benefit from that, and particularly were they happy to have the privilege of letting these people of low incomes build small houses out in suburban sections around Atlanta, and that is the purpose of my appearance here, to urge upon the committee the specific authority under the reenactment of that title for new construction up to $2,000. I have been told that the housing administrator, Mr. McDonald, has no objection to that feature being injected into the reenactment of title I, and I hope that is correct.

And I might point out this to the committee, which I am sure they would see any way, that that is about the only way that a great many sections of our country could get any benefit out of this Housing Act, because under title II they do not go into the suburban and rural sections of the country, and therefore a great many of our people haven't had any opportunity to participate under that title; but under title I if you give that authority we could even build houses on the farms in this country; and I think it would be a splendid thing. I know down in our section of the country we need some new farmhouses and some better farmhouses, and I would like very much to see it done, and I hope the committee will give it that direction.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Ramspeck. We have been glad to have your statement.

STATEMENT OF HON. PETER J. DeMUTH, MEMBER OF THE HOUSE OF REPRESENTATIVES FROM THE STATE OF PENNSYLVANIA

The CHAIRMAN. Gentlemen, this is Representative Peter J. DeMuth, of Pennsylvania. Mr. DeMuth, we are glad to have you here and shall be pleased to hear any statement you wish to make.

Mr. DEMUTH. Mr. Chairman, from the way I understand this bill, in order for a contractor to get a construction loan he must apply for a loan to build 25 houses or more, and for a mortgage in the amount of $16,000 or more. After talking to a number of builders-supply men, I feel that there are many contractors in the country that have been very good risks so far as character is concerned, and this number is so great that they have built the majority of small homes in the country. There are many of them that could and are ready to build now—provided they are able to get construction loans, and I think that they should be permitted to get construction loans on a smaller number of houses than 25. I do not think we should urge them to overstretch themselves on the number of houses they should build, nor should we pass legislation to discriminate against the smaller builder in favor of the larger building corporation.

Mr. HANCOCK. Where do you find any such restriction in the bill?

Mr. DEMUTH. Under the F. H. A., the way I read the act, referring to page 29, section 210–A.

Mr. MCGRANERY. Commencing on page 28, do you mean?

Mr. DEMUTH. Yes; the bottom of page 28. Isn't that the only place?

Mr. MCGRANERY. That is right.

Mr. DEMUTH. That is the only place there in the act where a construction loan is provided.

Mr. MCGRANERY. And what was your thought on that?

Mr. DEMUTH. I think the $16,000 provision that they have in there is all right, but I think that should be cut down to five single dwellings.

Mr. MCGRANERY. You have in mind I suppose the small communities where 25 houses might even be too many. Is that right?

Mr. DEMUTH. That would be a large number of houses, and a man starting out would want to feel his market. He would not want to go out and start 25 houses when there may be only a market for four or five houses. It would be bad for the Government, because eventually that would react.

Mr. FORD. He can still get that loan through the regular F. H. A. procedure.

Mr. DEMUTH. He can get a loan, but how is he going to originate that program? He needs a construction loan.

Mr. MCGRANERY. He cannot get it under sections 203 and 207 unless he builds 25 single-family dwellings, or one or more multiple-family dwellings. It cannot be done.

Mr. DEMUTH. What is he going to do for money to pay his laborers and his materialman? The chances are he could get the materialman to go along, because he is a good risk, but labor would want to be paid.

Mr. FORD. Do you understand that he gets the money? Who does he get this money from, as you understand this section?

Mr. DEMUTH. From the Reconstruction Finance Corporation, under this.

Mr. FORD. Where do you get that?

Mr. DEMUTH. That was my idea.

Mr. HANCOCK. He can get the money from any lending institution. The only thing is, the Federal Housing Administration would have to insure the advances.

Mr. WILLIAMS. This section does not give him any money. It simply provides him with insurance on that.

Mr. McGRANERY. That is what he is getting at.

Mr. DEMUTH. On construction? He could not under the mortgage get the money until the mortgage is signed and the suppliers release liens to the mortgagee, showing that all his bills are paid, but this section here provides for a construction loan.

Mr. McGRANERY. In other words, he cannot get a' construction loan; that is what you mean?

Mr. DEMUTH. That is right.

Mr. McGRANERY. That is, money that is to be used in the construction of the dwelling. Is that right? Is that what you mean?

Mr. DEMUTH. That is right.

Mr. FORD. I should think that in building five homes, he could get one F. H. A. loan and complete that house, and then when he completed that he could do the same thing again, and continue to do that, and in that way he would naturally not have to come under this.

Mr. DEMUTH. No; but your providing, the way I interpret this, a means of supplying capital to the large builder for constructing homes and to initiate the program, whereas the small man, the small builder does not have any chance.

Mr. FORD. We do not provide capital, in the first place, to anybody.

Mr. DEMUTH. You supply a means of his obtaining a loan.

Mr. FORD. We set up machinery for the insuring of his loan, which presumably will induce private capital to go into it because of the fact that the loan is insured, but there is no reason why this man who is ultimately going to build but five houses should not build them one at a time and get his loan in the regular way.

Mr. McGRANERY. Mr. DeMuth, is this what you have in mind? Where a contractor in some small community has only a need for 5 to 10 new houses in that community, he has his set-up. Under the law, as I read it, you are absolutely right, if you and I agree as to where we are going on this thing. Before he can have that mortgage insured he must submit a plan to the F. H. A. of the type of construction of the houses—that being approved by the F. H. A.—do you see?

Mr. DEMUTH. Yes.

Mr. McGRANERY. That then there can be an advance from the renting agency, whoever it may be, to the materialman, to the laborer, and to what not, to pay foı the construction as it proceeds.

Mr. DEMUTH. That is right.

Mr. McGRANERY. That is what you have in mind?

Mr. DEMUTH. Yes, sir.

Mr. McGRANERY. I thought that was it.

Mr. WILLIAMS. Why can they not do that as well for 5 as for 25? What is your idea?

Mr. McGRANERY. The law limits it.

Mr. DEMUTH. The law limits it by saying "not less than 25."

Mr. WILLIAMS. But go back to the other provision, section 203.

Mr. McGRANERY. There is no construction loan guaranty provision there at all. There is no provision for that.

Mr. DEMUTH. There is no provision on the one, but there is a provision on 25 or over.

Mr. WILLIAMS. Does not the F. H. A. make commitments as the building progresses and the money is advanced by the bank or the mortgage company or whoever advances it in the one case just as they do in the other?

Mr. DEMUTH. No; they do not, under the present law, from the way I understand it.

Mr. HANCOCK. Mr. Chairman, Mr. McDonald is here, and I think he could very readily clear up that point for us.

Mr. DEMUTH. Yes; I would be glad to have that done.

The CHAIRMAN. I was reserving questions until Mr. DeMuth had finished, but if you desire you may ask Mr. McDonald that question at this time.

Mr. McDONALD. On the individual houses up to 25 there are available facilities for construction loans. There are the building and loan societies and the local banks. The Federal Housing have not the staff, have not the facilities to keep track of these individual houses while they are under construction, yet the local man on the ground has, and that is why we did not want to include in the act any construction unless it was sizeable in amount.

Mr. McGRANERY. But then you get back, Mr. McDonald, to the proposition, as I follow the gentleman, where you are relying solely on the lending agency in that community, and suppose they say to him that this is not attractive enough, they do not want it?

Mr. McDONALD. That is for the individual house? That would be true.

Mr. McGRANERY. Then they are out of luck, in other words?

Mr. McDONALD. That is true.

Mr. McGRANERY. I think we should make some provision for that.

Mr. DEMUTH. Suppose it were four houses or five houses? I would like you to name me one building and loan or one bank in Allegheny County or the city of Pittsburgh that will do that.

Mr. McDONALD. I am not familiar with Pittsburgh.

Mr. McGRANERY. Mr. McDonald, you feel that to change this for less than 25 might place an undue burden on your organization?

Mr. McDONALD. Precisely. We would have to see that the contractor was under bond, otherwise we might be handed a lot of half-finished houses. If he had difficulty with a contractor he could simply call the thing off and demand our insurance on the other, the unfinished house.

Mr. McGRANERY. Is there any other objection to this feature?

Mr. McDONALD. That is all.

Mr. McGRANERY. That is the only thing?

Mr. DEMUTH. Could you not make that contractor subject to your approval?

Mr. McDONALD. Yes; but when you get down to one house at a time——

Mr. DEMUTH (interposing). Make it four or five houses, and you could easily have your man investigate that contractor through his building-material man from whom he has bought over a period 4 or 5 years.

Mr. McDONALD. To make construction loans, Mr. Congressman, it is necessary to make repeated and continuous inspections, and for small individual houses we have not the facilities for it.

Mr. McGRANERY: Mr. McDonald, is it not true that with this provision in the law you are going to stymie the building of these very

small communities, that this will only apply to metropolitan areas, where they are going to get the full benefit of it?

Mr. McDONALD. I do not think so. Our experience has been, so far, that 40 percent of the F. H. A. loans have been made in cities under 25,000 inhabitants.

Mr. McGRANERY: That was the limit you set?

Mr. McDONALD. Yes.

Mr. DEMUTH. I will say that 90 percent of the houses that were built during the boom years in the city of Pittsburgh were built by men such as that, and you are eliminating them entirely from the picture, and they can build and give more value for the money than the larger contractor because they do not have the overhead, and they also give to it personal supervision and attention.

I would also suggest that the office and overhead expense in connection with the insurance of the mortgages be carried out of the general appropriation, not charges as an expense against the insuring of the mortgage when the mortgage is approved.

Mr. McGRANERY. What is that? I do not follow you.

Mr. DEMUTH. The elimination of office and overhead expenses in connection with the mortgage pool to be eliminated, that only the direct losses suffered on any of the mortgages be charged against the pool. I do not think Mr. McDonald would have any objections to that. It is a matter of bookkeeping there, and it also is a matter for the administrator to decide how much of his general expense he is going to charge against the mortgage pool.

Mr. McGRANERY. You mean to eliminate the entire overhead of the administrator?

Mr. DEMUTH. Yes; against the mortgage pool.

Mr. ABNER H. FERGUSON. You mean by that the mutual mortgage insurance fund?

Mr. DEMUTH. Yes.

Mr. ABNER H. FERGUSON. Then Congress will appropriate it?

Mr. DEMUTH. Yes; Congress will appropriate it. I believe it would simplify that feature. Do you know of any particular objections to that, Mr. McDonald?

Mr. McDONALD. I do not believe I am in a position to discuss that right now, Mr. Congressman.

Mr. FORD. When you take out insurance with an insurance company, that being a private company, where do they get their overhead? Where does the insurance company get its overhead?

Mr. DEMUTH. Oh, for the insurance policy, of course, but here you are asking a private individual to build a home in order to give work and buy material, in order to take people off the unemployed lists. He is willing to put his money in that program, cooperating with the Government, and besides I do not think they should charge any insurance at all, because the saving to the Government in the long run is going to be much greater than the small "mortality", you might say, that is going to occur on these mortgages according to the history of the mortgages under the F. H. A. as now in effect. And when you consider what they are doing for the renter, where you are reaching practically the same class, you are not making, you might say, any concession.

Mr. FORD. That is true on the low-cost housing.

Mr. DEMUTH. Because under that act you are giving them housing at no cost, and no taxes.

The CHAIRMAN. All right. Thank you very much.

STATEMENT OF HON. EDWARD W. CURLEY MEMBER OF THE HOUSE OF REPRESENTATIVES FROM THE STATE OF NEW YORK

The CHAIRMAN. Gentlemen, you do not need to have Congressman Curley introduced. We are very glad to hear you, Mr. Curley.

Mr. CURLEY. In the beginning, Mr. Chairman and gentlemen, I want to extend to you my appreciation for the invitation to be here. I was here before this morning and was unable to remain. I have already appeared before the Banking and Currency Committee of the Senate.

I represent the highly industrial section of the country, New York City. In the situation we have there I believe that this new proposed legislation, the Wagner-Steagall bill will be the medium by means of which the condition existing especially there in that big city will be materially benefited. We have something like 66,000 tenement houses in the city of New York, "old law tenements" so-called, of which some 37,000 are obsolete and should be torn down and scrapped. With the permission of the committee, I would just like to read off those figures. It will not take but a minute. [Reading:]

For the information of all concerned in this humane legislation it might be interesting to know that there is a fertile field for new construction by private industry in the city of New York, which under the terms of the Wagner-Steagall bill, investments will be secured by the Federal Government insurance feature.

Rents—a surprising thing—the rents now are rising in the city of New York, and especially where the tenants live in these tenement houses.

Mr. McGRANERY. That is due to the fact, I suppose, of the shortage.

Mr. CURLEY. The shortage in houses, exactly. [Reading:]

Rents are now rising in the city of New York, especially among the tenement houses. There are five counties in the city of New York, in which are located the following old-law tenements.

I will give you a picture of the city. I do not know how many of you are familiar with the topography of the city of New York, but at any rate in New York county there are 29,056 "old-law" tenements, containing 335,042 flats. In Kings County there are 31,353 tenements, containing 148,199 flats. In Bronx County there are 4,620 tenements containing 31,317 flats. In Queens County there are 1,632 tenements, containing 7,044 flats, and in Richmond County there are 291 tenements, containing 1,164 flats. That completes the five counties. This makes a total of 66,952 of these "old-law" tenements, with a total of 523,386 flats. These flats house approximately 1,500,000 in the city of New York. Now it is, in my humble opinion, due to the fact that the building-trades department of the American Federation of Labor was the first industry in this industry to feel the effects of the depression, and it is the last to be helped financially. There are I will say about a million craftsmen in the building-trades department of the American Federation of Labor, and there are also some 3,000,000 to 4,000,000 other workers who are interrelated to the building industry.

I think that the Wagner-Steagall bill will be the magnet which will attract the finances of the money lenders in the city of New York and other sections of this country, who I think should have no objection to coming to the front, because in the early days of the depression if my memory serves me correctly Uncle Sam treated them very kindly, because we bailed out some 16⅔ percent of the mortgagees, which amounted to something like $3,000,000,000, and thereby gave them a wonderful blood transfusion. Now I think the picture is turned around, and while the Nation is in a recession somewhat it is like a patient who is sick and convalescing, and who did not obey the orders of his physician and probably "stepped out" a little bit too much and is now suffering as a result of it, but it is only temporary.

Mr. McKeough. Will you guarantee that? [Laughter.]

Mr. Curley. I tell you what I will do, Mr. McKeough, I will refer you to what one gentleman said back in 1929, and what he says today. Back in the summer of 1929 we were startled by a prediction that our Nation would be enmeshed in a panic within 6 months. That prediction was made by an internationally prominent statistician and economist. His name is Roger W. Babson. We know how accurate he was then, when the uncanny truth dawned on the American people in the fall of that dark history-making year of 1929. He was in a pessimistic mood at that time. Now he is back again in the limelight, taking the lead this time of the optimists in ridiculing the present-day pessimists who seem to be suffering from stage fright over the Nation taking time out to take inventory of the state of the Union. While this necessary economic step is in progress a so-called recession took place, and the weak elements in the life of the Nation lost their nerves. Well, let us see what that great statistician-econômist has to say now on this state of our affairs.

In an interview at his Wellesley Hills home near Boston, upon his return from a 5 weeks' visit to England, Roger W. Babson, statistician-economist, expressed every confidence that despite troubled waters in the sea of economics, business conditions in this country are basically sound. I quote:

> Babson predicts that business in 1938 will be better than it was in 1937. Our Nation today is swept by the epidemic of a new disease—it is the jitters. The English and other Europeans think this slump is only stage fright on our part.

I read that because Mr. McKeough asked the question.

Now, Mr. Chairman, without attempting to abuse the privileges you have accorded to me, I speak for a number of builders in the city of New York and I do not speak from a lack of experience, because I put in 35 years as a practical builder in the city of New York, supplying the key craft of the building industry, the hoisting machinery, so I have had my ups and downs, too, in the business, but I can appreciate the fact, from my experience in the building business, that it is stymied as my friend said, and I think this bill is a step in the right direction and will be a medium by which this country will be brought back to normal economic condition. I hope that this bill will be reported out favorably, which I approve very heartily.

The Chairman. Thank you, Mr. Curley.

(The prepared statement submitted for the record by Congressman Curley is as follows:)

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"Babson predicts that business in 1938 will be better than it was in 1937. Our Nation to day is swept by the epidemic of a new disease; it is the jitters. The English and other Europeans think this slump is only stage fright on our part."

Mr. Babson and I are in agreement as to the present and future state of the Union.

Tonight I wish to speak in reference to the Wagner-Steagall housing bill which, in my humble opinion, is one of the most important pieces of major legislation yet introduced, to convey to the minds of those engaged in finance, the administration's effort to provide a basis for sound investment in an important major industry * * * an investment which carries with it the guaranteed security of Government insurance * * * another new milestone in our Nation's recovery program.

The first thought that President Roosevelt expressed back in 1933 was "All we have to fear is fear." With a heavy national deficit aggregating $7,000,000,000 as a legacy, and facing almost a complete paralysis of business in general * * * with banks closing in every State in the Union * * * with railroads badly crippled * * * and the whole economic structure in a tailspin heading for collapse, the body politic required a major operation to check and restore it to a normal condition. Over a million home owners faced bankruptcy and foreclosure. The nerves of the American people were shattered by misery and distress. Millions of farmers were crying for help. Captains of industry were on their knees begging for financial assistance from our Government. Railroads, insurance companies, and business in general, pleaded for financial help from the Government, and it was granted.

The Government came to the rescue of the farmer, did it not? Over a million home owners, all over the country, were financed by Uncle Sam to the tune of $3,000,000,000, which went to liquidate the frozen assets of the mortgagees and lenders all over the land. All of this governmental relief expenditure primed the pump sufficiently to check the downward spiral of industry by means of this financial blood transfusion, which saved the day for the American people.

Now it is the private institutions which must furnish the financial sinews of war against the existing recession we read so much about. No plan to restore prosperity will work if the people can't. The only remedy for the solution of the unemployment problem is the distribution of the wealth of the Nation in work and wages and this is the basis of all prosperity. It is estimated that six and a half millions of American citizens are now unemployed. The only common-sense solution of this problem, therefore, is the initiation of a large-scale housing program of construction by private industry which will stimulate the dormant elements of that vital cog in the economic life of our country * * * the building industry.

The building industry was the first to be paralyzed by the depression, and it is the last to receive practical financial assistance. There are a million craftsmen in the building trades, and there are three to four million other workers indirectly affected by this proposed amendment to the National Housing Act.

President Roosevelt's housing program calls for reductions of one-half or three-quarters of 1 percent in the total charges on insured mortgages. At the present, banks or others, lending under the Federal Housing Administration plan are permitted to charge a maximum of 5 percent interest, plus one-half of 1 percent service charge. They also collect for the Federal Housing Administration its insurance premium of one-half of 1 percent. That makes a total of 6 percent.

President Roosevelt proposed that the total of both interest and service charges be limited to 5 percent, in effect wiping out the amount of the present service charge. On homes costing less than $6,000, he suggested that the insurance premium also be reduced to one quarter of 1 percent. Another but smaller saving would apply the premium rate to the unpaid balance of the mortgage instead of to the original amount of the loan, as at present. Thus, every time a home owner paid part of the principal on his mortgage he would reduce his insurance cost a few cents a month.

The paralyzing effect which the crisis of the depression produced between the years 1929–33, inclusive, on the building trades department of the building industry, is colossal, when a view of the statistics is placed before us, namely:

BUILDING CONSTRUCTION IN THE UNITED STATES

The number of families provided for in new dwellings in 257 identical cities are as follows:

In 1929, in one-family dwellings	98, 164
In 1933, in one-family dwellings	14, 437
In 1929, in two-family dwellings	27, 813
In 1933, in two-family dwellings	2, 124
In 1929, in multifamily dwellings	118, 417
In 1933, in multifamily dwellings	9, 318

Bradstreet's estimates of building expenditures in 120 cities of the United States were given as follows:

In 1929, $2,489,553,000 were spent.

In 1933, $262,942,000 were spent.

The foregoing statistics indicate expenditure of money in private industry for housing construction took a toboggan slide from a peak in 1929 and zigzagged to almost a zero point in 1933, because the financial institutions were on the verge of bankruptcy when the "Life Saver" Uncle Sam, stepped in and rescued the very institutions which primarily brought on the business collapse. The builders of the Nation were handcuffed and could not obtain loans for private construction.

It is conceded by those who are experts on housing, that approximately 750,000 dwellings per year, for the next 10 years, must be built to supply the essential human needs in this field of construction.

The rise in the Nation's jobless is put at 290,000 in a month. This unemployment in the United States in October 1937, advanced 293,000 over the September level, to an estimated total of 6,350,000, according to the latest report of the National Industrial Conference Board, made public on November 31, 1937. This represents a resumption of the upward swing that took place from July to August, after a succession of monthly declines since January 1937. The total employment in all fields of private enterprise and in permanent Government agencies, aggregating 46,836,000 persons in October, showed a decrease of 243,000 under the total for September 1937.

The housing problem in the city of New York, and throughout the Nation, is of more commanding importance just now to the public interests than any other subject requiring legislative action by the Congress. How can we hope to stamp out disease, insanity, and crime unless we take practical steps to remove the causes of such a serious social maladjustment? The new proposed amendment to the National Housing Act sponsored by Senator Wagner is the answer.

For the information of all concerned in this humane legislation, it might be interesting to know, that there is a fertile field for new construction by private industry in the city of New York, which, under the terms of the Wagner-Steagall bill, investments will be secured by the Federal Government insurance feature.

Rents are now rising in the city of New York, especially among the tenement houses. There are five counties in the city of New York, in which are located the following old-law tenements:

First. New York County: There are 29,056 old-law tenements, containing 335,042 flats.

Second. Kings County: There are 31,353 tenements, containing 148,199 flats.

Third. Bronx County: There are 4,620 tenements, containing 31,737 flats.

Fourth. Queens County: There are 1,632 tenements, containing 7,044 flats.

Fifth. Richmond County: There are 291 tenements, containing 1,164 flats.

This makes a total of 66,952 of these old-law tenements, with a total number of 523,386 flats. These flats house approximately 1,500,000 people in the City of New York. If the social reformers really seek the fundamental cause of crime in all its ramifications, here is where it will be found, in all its vicious environment. The remedy lies in a drastic slum clearance and new housing program of new construction.

According to the statistics of the Federal Emergency Administration of Public Works "the total volume of all construction in 1929 in the United States amounted to $12,000,000,000. In 1932, before the establishment of the Public Works Administration, the pendulum had swung so far in the other direction, that the volume of total construction was less than $4,000,000,000.

"To understand the importance of construction in our economic system, it is necessary to recall that of 49 million persons in gainful occupations before the depression, more than 3 million worked at construction sites. In addition to these were millions of other workers whose employment depended directly on orders for material used in construction. The depression was ushered in by a letdown in building, from boom activities to a comparative standstill. The first of those to be laid off were the men engaged in the building trades, the masons, bricklayers, steel workers, carpenters, plasterers, and plumbers. As construction slowed down, there was a gradual corresponding decrease in orders for materials, and the employees of the mills and factories joined the ranks of the jobless. With mills and factories shut down there was obviously no call for raw materials to be fashioned into supplies for construction. Work ceased in the forests. The long lines of freight lines and trucks transporting raw materials, from their source to the mills and factories, which fabricated them, and thence to construction sites, became shorter and shorter.

"Evidencing the decreased activities in these industries is the fact that retail sales for 1933 dropped 47.7 percent from their 1929 total. In 1934 when the benefits of the first program undertaken by Public Works Administration were being felt, there was an upward movement for the first time since 1928. The Congress accepted the theory of public works and appropriated for all construction purposes $3,151,681,565 of which less than half went to Public Works Administration, of which $130,937,289 went for Federal low rent housing proj- etc." This gives us a precedent for Federal aid for low-rent housing construction.

There should be no objection now by private investors, to release their idle funds for investment, in a proven sound business enterprise as is proposed by the Wagner-Steagall bill. The quicker the purchasing power of consumers is spread over a wider area than it is now, the sooner the Nation will balance its Budget. You can do this if you adopt the worth while building program that is proposed for the elimination of slums and the erection of new houses in place of them. Let us start the production program going, by stimulating the dormant building trades industry by means of a financial blood transfusion. Give these millions of workers the same opportunity that the banks, home owners, farmers, railroads, and business in general received from the Government. The city worker needs the farmers' help just as the farmers need the help of the city worker. Their mutual interests depend on each other.

The Wagner-Steagall bill is a humane, constructive measure and deserves the wholehearted support of the Congress. The sponsors of the bill are to be congratulated for their long, tireless efforts to salvage the poverty-stricken from the slum tenements and dwellings of the country and provide them with new, decent housing besides cooperating for the revival of business industry.

Inasmuch as experts say that families with incomes under $1,500 constitute much more than half the population of the cities, the cooperation of the Federal Government insurance policy is the stimulating magnet which will attract private investment of capital. Why shouldn't the banks and other lending corporations cooperate with the rest of the country elements in such a constructive program of housing construction throughout the Nation, when their invested money will be guaranteed and protected by Federal insurance?

Under the provisions of the existing National Housing Act to encourage improvement in housing standards and conditions and to provide a system of mutual insurance, the single long-time mortgage has been standardized as the basis of private home financing. One could borrow up to 80 percent of the cost of the improvement and have it secured by Government insurance. This was a decided gain for the home owner.

The new amendment in section 7 goes a step further as it extends the home owners' borrowing capacity from 80 percent to 90 percent of the cost of construction, of an amount less than $6,000, provided the mortgagor shall be the owner and occupant of property at the time the mortgage is accepted for insurance, and has paid at least 10 percent of the appraised value of its equivalent. The act provides further that the premium charge for the insurance of the mortgage will not be less than one-half of 1 percent per annum, nor more than 1 percent of the principal obligation outstanding, except that the premium charge as to the mortgage described in paragraph (B) of subsection 2 of section 203 (b) may be one-fourth of 1 percent per annum on such outstanding principal.

Another important change, in my humble opinion, in the existing law, which will have a strong tendency to syphon the money held in the vaults of lenders, is noted in the amendment to section 25 of title 2 by adding a new section 210. This change raises the borrowing capacity of the mortgagor, involving a principal obligation in an amount in excess of $16,000 but not in excess of $200,000 and not in excess of 80 percent of the amount estimated by the Administrator to be the value of the property, when the improvement is completed and such part thereof as may be attributable to dwelling use shall not exceed $1,000 per room, and providing for a maturity of not to exceed 20 years and amortization provisions satisfactory to the Administrator.

The CHAIRMAN. I am glad to introduce Congressman George G. Sadowski member of the House of Representatives from the State of Michigan. You may proceed, Mr. Sadowski.

Mr. SADOWSKI. Mr. Chairman, I represent an industrial district in the city of Detroit, 4 miles wide and 8 miles long, with approximately 400,000 people living in it.

The provisions of the F. H. A. Act have been a wonderful thing for most of the city of Detroit, but the act has not up to the present time been of much benefit to my district, because the people living in my district are factory workers. They cannot afford to own a home costing more than say $6,000. Under this new bill I hope that that is going to be remedied. I hope it is going to open the gates to these factory workers. I hope they will have an opportunity to buy homes inder the F. H. A.

I have listened to quite a lot of testimony before this committee, and it seems to me that a lot of people representing financial institutions come here in the position of the dog in the manger—they themselves have not done anything to help my city, to help the people in my district obtain loans, to obtain mortgages, to obtain new homes, and yet they want to stop this committee, and they want to stop this legislation from becoming effective.

I feel that the President's program is a great program. I feel convinced after listening to the testimony here and making a study of the bill that there is going to be an outlet for these small mortgages through a national mortgage association. That is the thing we need. The problem that I have in my district is the same problem that every Congressman has in every large city in the United States of America, and I certainly hope that this piece of legislation will be reported out now and be enacted into law now; that it will not be carried to the regular session.

I hope the Senate will act now.

That is about all I have to say, Mr. Chairman. I hope we get this out very speedily and that this committee acts on it at this special session, that we have an opportunity to vote on it.

The CHAIRMAN. Thank you, Congressman Sadowski. If you wish to, you may amend your statement and if you so desire you have leave to extend your remarks in the hearings.

STATEMENT OF FRANK CARNAHAN, SECRETARY OF THE NATIONAL RETAIL LUMBER DEALERS ASSOCIATION

The CHAIRMAN. Mr. Carnahan.

Mr. CARNAHAN. Mr. Chairman, as secretary of the National Retail Lumber Dealers Association, I represent 21,000 material dealers in the United States. I have here one of our retail dealers, a prominent retail dealer from Boston, Mr. Hawkins, who is also a builder and also a financial man, and if he can make a few statements after I get through making a short statement in regard to the national mortgage associations, I would be grateful to you.

We think the situation under this legislation and the President's suggestion for the formation of a $50,000,000 national mortgage association with R. F. C. funds is one of the greatest things that could be done to help this building program. I say that because, contrary to the general belief, one of our biggest problems today in the small-house field is initial financing and mortgage money. In other words, a retail lumber dealer is in a position to go out and get his prospect and build his home, but his local bank will not or cannot under certain circumstances take that initial mortgage unless he has some reservoir or some place to put it.

I want to give you one example on that and show you it worked out. You put an amendment in the R. F. C. Act to permit the R. F. C. to buy through their mortgage company, F. H. A. insured mortgages. We worked out through the administrative offices of the R. F. C. and the F. H. A. a plan whereby the R. F. C. would take those mortgages from these small banks in these small communities, taking them at 4½ percent, which would allow the local bank 1 percent for the servicing.

The banks then opened up in order to assist local communities, by supplying the initial mortgage, and immediately converting it and turning it into this reservoir of the R. F. C. In the State of Mississippi, where they were doing practically nothing at all, the R. F. C. pumped about $5,000,000 in mortgage money into that State, and into the State of Texas, $11,000,000, I think altogether about $25,000,000. In turn, the R. F. C. has sold, I do not know just what the current figure is, but a tremendous number of those mortgages that they have purchased, in turn to insurance companies and savings banks and financial institutions.

Now, Mr. Chairman, if I can ask Mr. Hawkins——

Mr. MCKEOUGH (interposing). Do you have any objection to the 20-to-1 ratio and the $50,000,000 the R. F. C. is supporting on the national mortgage?

Mr. CARNAHAN. No, sir, we do not.

Mr. MCKEOUGH. Do you think the 20-to-1 ratio of the $50,000,000 of the R. F. C. which was put into the National Mortgage Association was a safe program?

Mr. CARNAHAN. Yes.

STATEMENT OF VERNON M. HAWKINS, PRESIDENT OF THE HAWKINS LUMBER CO., BOSTON, MASS.

Mr. HAWKINS. Mr. Chairman, my name is Vernon M. Hawkins, president of the Hawkins Lumber Co., Boston, Mass.; past president of the New England Wholesale Lumber Dealers Association; past president of the Northeast Retail Lumber Dealers Association; past president of the Lumber Trade Club of Boston; former district sales director for Sears-Roebuck, in charge of their home construction, for New England; national code directors for New England, and otherwise I have been steeped in this industry ever since I was a tally boy, and I am glad to come here today.

I was interested, gentlemen, in hearing what the bankers had to say about their interest. I think that is a secondary consideration. Furthermore, I am satisfied that the bankers, when the lumber and material man and the contractor and laborer will put their money into a house, then they are ready to loan the money on it. Then after we put in about 15 or 20 percent of the value of that house, they want us to endorse their note. We do not have to ask them to do that. We can get the money through the F. H. A. without it.

I hope some way will be found where that will be possible. Furthermore, I want to urge your support of the National Mortgage Co. That is one thing that has been needed in this country for a great many years, to make mortgages and real estate, the basis of our national wealth, liquid, and to have a liquidity equal to investments in this country.

I also want to urge the 90 percent loans. It is 71 percent now, according to their testimony here that I have listened to patiently and with a great deal of interest.

Also we want the restoration of title I. It reaches out into the hamlets and byways and small places which probably need some new construction and gives labor an opportunity for the small house to be built. We are back of and in support of the desire for people to build homes.

Today it is a mystery—it has been a mystery up to the time of the education as put out by the F. H. A. They have done more to take the mystery out of home building than any other thing that has happened in this country in my 25 years in the lumber business.

I do not think there is anything more I can say, Mr. Chairman. You have been very patient with a lot of these witnesses. I hope you will be patient with me, by asking that I discontinue now, so I presume you can adjourn.

The CHAIRMAN. Thank you very much.

Mr. MCGRANERY. I have a gentleman here from Philadelphia who is a very important builder, building more invividual homes than any other man in America, I think. Mr. McClatchy.

STATEMENT OF JOHN H. McCLATCHY, DIRECTOR, HOME BUILDERS' ASSOCIATION, OF PHILADELPHIA AND SUBURBS

Mr. MCCLATCHY. That is an exaggeration, Mr. Chairman.

I came here yesterday with a delegation representing the Home Builders' Association of Philadelphia and suburbs, of which I am a director.

Before reading the statement which we have prepared, which will be very brief, listening to the discussion here the last day or two, I wanted to make in a very brief way a contribution to this discussion, which is the result of a long experience. I have been in this business since 1888. I do not look it, but I have, and I have built as many as 800 or 900 small homes a year. Our business has been exclusively the building of small homes.

As a matter of actual experience I can tell you that up until 1929, with the thousands of homes we bulit, I do not believe we had 100 foreclosures, and they were all sold on a 10 percent down payment.

As an experiment last year, with the limited capital I have, I built 97 houses on a very easy payment plan, a little less than 10 percent, and we sold 40 of them in one day. They were under $4,000 in price, of brick and stone, small Philadelphia solid row houses, substantially built, and today we are offering houses for sale at $4,300, with an absolutely sworn statement of profit of not over $150, no commission paid to anybody, and those houses are equal to your better and a little larger homes with more improvements, than I sold 10 years and more ago for $5,500, and at that time we sold in 1 year over 500. It may have been a little over 10 years ago.

Now the reason we have not been able to sell these houses today is owing to the the 20 percent, and we believe firmly—we know that there are at least 20 people to the one who did not purchase some of these houses who would have bought if the down payment was smaller.

I have rather radical thoughts on the question of small homes. I have tried to give some of my thoughts to the Federal Housing Administration.

The CHAIRMAN. It is your idea that the 90 percent provision in this bill is constructive?

Mr. MCCLATCHY. That it is constructive, and absolutely safe.

The CHAIRMAN. You lend your ednorsement to that?

Mr. MCCLATCHY. It is absolutely safe.

Mr. MCGRANERY. Mr. McClatchy, how many houses, or do you know, surrounding metropolitan Philadelphia, under construction at this time?

Mr. MCCLATCHY. I would say possibly 2,000.

Mr. MCGRANERY. How is the passage of this bill going to affect the houses now under construction?

Mr. MCCLATCHY. I want to suggest an amendment, which I will read into the record and leave with you, whereby this bill could be amended so that its provisions as to 10 percent will apply to these houses that have been started within the last year; all of course to be subject to the final inspection of the F. H. A.

Mr. MCGRANERY. What prompts you to offer this amendment?

Mr. MCCLATCHY. If the amendment is not passed, you are going to stop the substantial builders who have built these 2,000 homes, and with this discussion of 10 percent, which strains people to put up that cash, you are going to stop the builder from going on, because those people are waiting on this 10 percent business, and you will simply stop that man and he will not be able to go ahead, and they represent the best and most substantial builders in the city. He will not be able to go on unless you allow the provision to extend to those houses at present under construction, all under the $6,000 class.

Mr. WILLIAMS. They did not have that in view when they started to erect them, did they?

Mr. McCLATCHY. No, but they have been penalized now, and ruinously penalized, by the discussion about 10 percent, because people are just waiting.

Mr. McGRANERY. You mean by that that these 2,000 houses which you have built now around Philadelphia, which are in the course of construction, are affected?

Mr. McCLATCHY. Houses that our association has under construction.

Mr. McGRANERY. What is your experience with respect to the sales of those properties at this time?

Mr. McCLATCHY. I have mentioned one point. I do not know just what that may have been, but we would have had 20-to-1 buyers who could have bought those houses with 10 percent, who are unable to pay 20. That seems strange but true. As you go down the ladder it increases very rapidly.

Mr. McGRANERY. Are people awaiting the outcome of this bill?

Mr. McCLATCHY. People are awaiting the outcome of this bill; very definitely awaiting it.

Mr. McGRANERY. In other words, Mr. McClatchy, as I understand the situation, houses that have already been built or are about completed, or houses under construction in the $6,000 class, I take it, are hard to dispose of at this time?

Mr. McCLATCHY. They are hard to dispose of at this time. It does not extend only to Philadelphia but all over the United States, and I think you are going to stop the substantial builder and you will not get the immediate reemployment, unless you extend it to those houses which are at present under construction or which have been under construction within the last 12 months and are unsold, of course, today, because that type of builder will go immediately into large volume.

Personally I will start immediately 300 places under $6,000.

Mr. McGRANERY. You say you would start immediately with 300 houses?

Mr. McCLATCHY. 300 houses, yes; of the modern description, $4,000 to $6,000. They would be brick and stone, small Philadelphia solid row houses, substantially built. They would include a garage. You know the usual type of row house.

Mr. McKEOUGH. In view of your experience, leading to optimism about this bill if it were adopted, do you feel you would encounter any disability in reaching an amicable settlement with labor, to protect against increasing costs by that program?

Mr. McCLATCHY. I have had experience with labor, and I believe that they will be reasonable. There would be some trades that might raise some question, but I think they would be reasonable.

Mr. McKEOUGH. You do not anticipate any disability in requiring labor to make this contribution to the program and maintain a fair rate with a guaranty of some kind for a long term?

Mr. McCLATCHY. I would like to make a statement that would not be in the record, and not for publication.

The CHAIRMAN. Very well.

(Discussion off the record.)

Mr. McKEOUGH. Have you had the same encouragement from the material man?

Mr. McCLATCHY. I think the material man will be bound to come along. I think he will come along, yes.

Mr. McKEOUGH. You are encouraged as to that possibility?

Mr. McCLATCHY. I am encouraged, yes.

The association prepared a statement here. The delegation had to go home yesterday, and they asked me to read it. I will make it very brief.

(The statement was presented for the record by Mr. McClatchy, and is as follows:)

STATEMENT BY JOHN H. McCLATCHY, A DIRECTOR, HOME BUILDERS' ASSOCIATION OF PHILADELPHIA AND SUBURBS, BEFORE THE HOUSE BANKING COMMITTEE, WASHINGTON, D. C., FRIDAY, DECEMBER 10, 1937

Gentlemen of the committee, the Home Builders' Association of Philadelphia and Suburbs includes more than 100 home builders and associated interests. The organization represents a yearly industrial turn-over of $100,000,000.

Our membership feels that the legislation now before you is the closest approach thus far made to the problem of providing home ownership financing facilities, with private funds, for the smaller-income man, under the single, insured-mortgage program of the Federal Housing Administration.

It is the immediate hope of stimulating the residential buying and building market, and the home-mortgage business, and will have a tonic effect on the general economic situation.

However, as spokesman for the builders' association, I am instructed to call your attention to one vital flaw in the amendments to the National Housing Act now under your consideration.

This weakness, unless eliminated, will serve to discourage present home buying and building. It will serve to defeat the primary purpose of the liberalized home-financing facilities, which is the immediate, rather than postponed, energizing of home purchasing in the up-to-$6,000 bracket. Its effect will be felt throughout the Nation in my opinion, but will be particularly emphasized in the Philadelphia district, largest mass producer of homes in the world.

Our criticism is directed at section 7, subsection of section (203) B, of title II, page 4, lines 5 to 17, inclusive, of the bill before you.

We urge that this section be amended to read as follows:

B. As to mortgages for an amount not in excess of $5,400 and covering such dwelling or dwellings, the construction of which is begun after the enactment of this Act, also dwelling or dwellings which were constructed, or in course of construction during the twelve months prior to enactment of this Act, the principal obligation as herein defined may be in an amount not to exceed 90 per centum of the appraised value of the property as of the date the mortgage is accepted *Provided,* That the mortgagor shall be the owner and occupant of the property and at the time of the insurance shall have paid on account of the property at least 10 per centum of the appraised value in cash or its equivalent; and the property shall have been approved for mortgage insurance prior to the beginning of construction, or after the completion of construction, of such dwelling or dwellings.

It is plain but emphatic that the amendment as it now stands, if enacted, will place the vast number of outstanding Philadelphia area residential builders in disadvantageous competition with a host of inexperienced builders who will step into what is expected to be an active buying market and merchandise on the 10-percent-down basis, while the members of our association, generators of an industry doing a $100,000,000 of business annually in normal times, and close cooperators with the Federal Housing Administration in advancing the single, insured mortgage program during the past 3 years will be ruinously handicapped by the necessity of having to sell existing new construction on a basis of 20-percent-down payment.

On the other hand, if the change in amendment we urge is accepted, full latitude will be given responsible buyers who are anxious to buy the hundreds of new homes under the $6,000 mar, in which Philadelphia builders and lending institutions have invested substantial funds. There are no present buyers for these homes, because the prospective home owners are holding off, waiting to acquire these properties within their capacity for down payment which is, in the great majority of cases, 10 percent. They are not yet generally acquanited with the knowledge that, under the legislation now before you, they will be ineligible to do so.

But with the amendment revamped, as we have suggested, there will be a brisk turn-over in these existing new properties, the producers will be encouraged, the buyers will be accommodated, a large amount of private capital invested in these properties will be released, and we, the builders, will immediately reinvest in a larger small-home volume in confident expectation of more active residential and mortgage markets.

I think that is what this legislation seeks to achieve.

As it now stands, virtually all Philadelphia and sururban home builders produce homes fully complying with all requirements of construction standards and design defined by the F. H. A.

The greater bulk of purchasing of this new construction is done by persons who qualify as mortgagors under the F. H. A. plan. They pay off their homes under the amortized monthly payment plan set up in the F. H. A. single, insured-mortgage system. This activity is the principal source of F. H. A. business in the Philadelphia district.

In nearly all these cases of volume building, however, it was not necessary for our home builders to obtain a commitment of insurance from the F. H. A. as a preliminary to obtaining construction loans.

Therefore, there was no need for us to submit plans and specifications to the district F. H. A. The high quality and attractiveness of our products brought millions of dollars of private capital into ready support of our merchandising. This very fact, in itself an economic advancement, apparently would seem to have disqualified us from further intensive building and sales activities under the amendment as now presented.

With the amendment reframed, as we suggest, this penalty would be eliminated, and there would be no prejudice against our immediate merchandising of new properties already on the market.

We think the 10 percent down payment facility now proposed will have a salutary effect on home buying and building, giving our section, and all others, too, an immediate stimulation. The high character of construction and the quality and responsibility of the buyer in

metropolitan Philadelphia is attested in the official records of the district F. H. A. office. That agency has handled more than 15,000 mortgage applications, recording them as accepted for insurance, a total of more than $60,000,000. The district embraces 38 counties of eastern Pennsylvania, but nearly 70 percent of the total volume was done in Philadelphia and adjoining counties, in which our association membership operates. To date, I am told, there has not been one foreclosure recorded in metropolitan Philadelphia.

The CHAIRMAN. We thank you. I want to say your statement is constructive and reassuring to this committee.

Mr. MCCLATCHY. We have had 50 years' experience in this business and have built thousands of homes.

Mr. ABNER H. FERGUSON. Mr. Chairman, may I make another statement, too?

The CHAIRMAN. Mr. Ferguson.

Mr. FERGUSON. I want to say Mr. McClatchy has just made reference to including in this, under the 90-percent provision, houses which were constructed since January 1, 1937, and which are unsold now.

The CHAIRMAN. No, I did not so understand him.

Mr. FERGUSON. It is going to be proposed by us that that be amended.

Mr. MCCLATCHY. If you gentlemen can be helpful in fact to the Federal Housing Administration—I have not said this about it—I think that the purchaser of the small home, if you can have any concession made during the first year in the rate of guaranty, I think it is very possible. There is no risk during the first year of construction. The small home owner will get the benefit of it, because, contrary to the usual thought that there is a fee of 15 to 20 percent profit, I can produce sworn affidavits on houses sold at less than $4,000 or $5,000, showing that the profit is not over $150. It is surprising, but it is true.

(The following statements were submitted for consideration of the committee and ordered to be printed in the hearings:)

STATEMENT RE PROPOSED AMENDMENTS TO NATIONAL HOUSING ACT, KNOWN AS WAGNER-STEAGALL BILL S-3055 AND H. R. 8520, BY A. D. FRASER, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA, CHICAGO, ILL.

PRELUDE

The Mortgage Bankers Association of America is in the twenty-fifth year of its existence and has a membership of 486 from 42 States. This membership includes:

1. Many leading life-insurance companies whose total mortgage loan portfolio amount to several billions of dollars. Many of these companies are large buyers of Federal Housing Administration loans.
2. Commercial banks.
3. Savings banks and trust companies.
4. Mortgage bankers selling mortgages to colleges and other institutions and individuals.

Many of the members in groups 2, 3, and 4 are large purchasers of Federal Housing Administration loans.

We are very much interested in the bill, both as affecting lenders and borrowers While we realize that the National Housing Act (Federal Housing Administration) contains many advantageous features, we are prompted to make suggestions and recommendations, which follow, regarding consideration of the proposed amendments by your committee. These recommendations are based upon lending experience on mortgage loans for a period of many years, and are made after careful study of the bill as now in effect and the proposed amendments.

We realize that the bill, as written, and as proposed to be amended, was drawn for the purpose of stimulating new construction and the ownership of homes, and our proposals are for the purpose of making the plan more workable as affecting lenders, borrowers, and the general public.

COMMENTS AND RECOMMENDATIONS

Section 203, page 3, line 4, states:

"That on and after July 1, 1939, no mortgages shall be eligible for insurance under this title except mortgages that cover property which is approved for mortgage insurance prior to the completion of the construction of such property, or covering property the construction of which was commenced after June 27, 1934; except that this proviso shall not apply to any mortgage on property which, at any time, has been covered by a mortgage insured by the Administrator."

We would suggest that the above amendment read as follows:

"That on and after July 1, 1938 no mortgages shall be eligible for insurance under this title except morggages that cover property which is approved for mortgage insurance prior to the completion of the construction of such property, or covering property the construction of which was commenced after June 27, 1934, title to which property is now in the name of the original owner, except that this proviso shall not apply to any mortgage on property which, at any time has been covered by a mortgage insured by the Administrator."

We feel that the Federal Housing Administration should make no more insured mortgages on existing homes except on recent construction, as above provided. Other refinancing on existing construction is only the trading of dollars, accomplishing nothing in creating new construction. Such refinancing raids the portfolios of many lending institutions having mortgage investments in trust funds, the beneficiaries under these trust funds being dependent upon income from these mortgage investments. If the mortgages are paid off, there is no opportunity under the present low rates of interest prevailing for reinvesting the proceeds. We understand that of the $1,000,000,000 loaned on Federal Housing Administration mortgages more than one-half of this amount has been loaned on existing construction. Furthermore, it is not well to encourage the borrower to increase his obligation on his home, which he may do in many instances by refinancing under the Federal Housing Administration. For example, a man may be able comfortably to carry a $5,000 loan on a $10,000 house and should he increase his loan to $8,000, which he could do by refinancing under Federal Housing Administration, the $3,000 might go for luxuries which he could not otherwise afford and which would involve him in a heavier mortgage burden than he might be able to work out. We think that the Federal Housing Administration should from this time on make no loans on existing residences, except as above suggested.

In the recommendation of the President of the United States for legislation to stimulate home-building activity, he states:

"Institutions making loans to be insured by the Federal Housing Administration are now permitted by regulation to make an interest charge up to 5 percent and a service charge of one-half of 1 percent, or a total of 5½ percent per annum. It is proposed to reduce this to a 5 percent net by amending the administrative regulations."

Under the mutual mortgage insurance administrative rules on page 6, paragraph 6, it is provided—

"The mortgage may require the mortgagor to pay to the mortgagee an annual service charge at such rate as may be agreed upon between the mortgagee and the mortgagor, but in no case shall such service charge exceed one-half of 1 percent per annum upon outstanding monthly balances. Any such service charge shall be payable in monthly installments."

At the present time the Administrator may set the rate from 5 percent to 6 percent as the base rates for Federal Housing Administration loans and the rate is now established at 5 percent, which, with the service charge, makes the gross rate 5½ percent for the investor. It has been customary with many purchasers of Federal Housing Administration mortgages to allow a servicing fee of 1 percent to the servicing agent, thereby netting the investor 4½ percent. While the amendment does not provide for the elimination of the service charge, we are somewhat concerned that the President's recommendation might be adopted by the Administrator, and we would call attention to the disadvantages that would result should the Administrator adopt the President's recommendation and eliminate the one-half of 1 percent service charge.

If the purchasers of Federal Housing Administration mortgages should allow a 1-percent service charge out of a 5-percent gross rate, there would be left the net

of 4-percent interest to the investor, and we are quite sure that such a net rate would discourage many purchasers of Federal Housing Administration mortgages from buying them. Most life-insurance companies, many of whom have been heavy purchasers of Federal Housing Administration loans, are required to set aside a 3½ percent reserve, and at a 4 percent net rate on Federal Housing Administration loans there would be left only one-half of 1 percent for the management expense of their business, which is inadequate. It has been quite well established that no one can afford to service Federal Housing Administration loans at less than 1 percent. Therefore, the servicing agent could not well allow the investor any part of a servicing fee of 1 percent to make the net yield to the investor over 4 percent.

While, as stated, the amendment does not provide for the elimination of the service fee, we strongly recommend that the Administrator make no change in the present arrangement of allowing the one-half of 1 percent service fee.

Section 7 (pp. 3 and 4) proposes 90-percent loans to owner-occupants of newly constructed homes. We doubt the wisdom of this proposal, as it is our belief that institutional investors will not wish to use the funds of their investors in making such high-percentage loans unless other additional and substantial safeguards were provided.

The borrower's equity of 10 percent is entirely too thin. Should he become out of employment, or through some other misfortune such as sickness, etc., his equity in his home might disappear by the accumulation of unpaid interest, taxes, insurance premiums, and depreciation on his home. Lending institutions in some States are unable to acquire property under foreclosure until long after proceedings are started and the security would be lessened by tax accumulations and depreciation.

In the President's message recommending legislation to stimulate home-building activity, he suggests that industry and labor cooperate in producing housing at lower costs. Should there be a reduction of 10 percent on building costs, and a considerable amount of Federal Housing Administration loans made at 90 percent of the value, that reduction in building costs would bring the value of the properties, upon which has been made Federal Housing Administration loans at 90 percent, down to a basis where that 90-percent loan would represent practically 100 percent of the value of a similar building built later at a 10 percent lower building cost.

Section 23 (p. 32) revises title 111, section 301 (a) and provides for national mortgage associations. We are of the belief that wholesale associations organized for the purpose of lending on large housing projects as provided for up to $200,000 are not needed, as ample funds are available through large lending institutions to adequately supply the legitimate demand for privately owned rental housing projects, and many of these loans are now being made by these institutions both for construction and on completed buildings. Qualified Federal Housing Administration lenders have shown that they are able to take care of insured loans on residential properties as is evidenced by the fact that already $1,000,000,000 of the $2,000,000,000 amount authorized under the act has been loaned.

SUGGESTED CHANGES IN ADMINISTRATIVE RULES AND REGULATIONS UNDER TITLE 2 THE HOUSING ACT. FEDERAL HOUSING ADMINISTRATION FORM NO. 2010

On page 14 in the published rules, paragraph 7, there is a stipulation that if a property be acquired under foreclosure the mortgagee is to convey "such property undamaged by waste" and other conditions as stated in this paragraph, to the Administrator and receive debentures of the Mutual Mortgage Insurance Fund bearing interest at 3 percent per annum to cover principal, taxes, insurance premiums against fire, and other hazards, paid by the mortgagee, and accrued interest, etc. On page 15 (b) there is provided that a certificate of claim be issued to cover the costs of foreclosure, reasonable attorneys fees, unpaid interest, and cost of repairs of the property made by the mortgagee after default to remedy the "waste mentioned in this section," etc.

Many large lenders feel that "waste" is an undetermined factor with the possibilities of adding a large amount to the mortgage claim which could only be recovered should the property be sold by the Administrator for an amount insufficient to cover the 3 percent debentures and the certificate of claim.

We suggest that the word "waste," as appears on page 14, paragraph 7, line 11, be stricken from the rules, and that the words "cost of repairs to the property made by the mortgagee after default to remedy the waste mentioned in this section," appearing on page 15, paragraph (b), lines 8, 9, and 10 in the paragraph, be stricken from the rules.

Under the rules, page 15, paragraph (b), there is also provided that a certificate of claim be given, reading in part as follows: "Sufficient to pay costs of foreclosure, or other such proceedings, including reasonable attorney's fees."

Foreclosure costs and attorneys' fees in most States amount to approximately $300 on a $5,000 loan. It is our belief that this cost should be covered under the 3 percent debentures and not in the form of a certificate of claim, and we recommend that the words on page 15, paragraph (b), "sufficient to pay costs of foreclosure, or other such proceedings, including reasonable attorneys' fees" be stricken from the rules, and that the rules on page 14, paragraph 7 (a), be revised to include in the amount of 3 percent debentures, "cost of foreclosure, or other such proceedings, including reasonable attorneys' fees" be added.

We recommend that the Federal Housing Administration broaden the insurance feature to the extent of insuring the mortgage during construction to cover amounts advanced by the mortgagee. We feel that with this added protection Federal Housing Administration lenders would be stimulated to lend on construction.

The Chicago Mortgage Bankers' Association, who are members of the Mortgage Bankers' Association of America, have submitted to our secretary, in a letter, their viewpoints on the proposed amendments and we submit, hereto attached for the consideration of your committee and for the record, this letter.

The Mortgage Bankers' Association of Chicago has a membership of 88, and this membership represents an important group of mortgage lenders in Chicago, such as large banks, trust companies, and mortgage companies dealing in mortgages for the investment of insurance companies and institutional and private investors.

Respectfully submitted.

MORTGAGE BANKERS' ASSOCIATION OF AMERICA,
A. D. FRASER, *President*.

ADF-MB.

CHICAGO MORTGAGE BANKERS' ASSOCIATION,
166 West Jackson Boulevard, December 9, 1937.

Mr. GEORGE H. PATTERSON,
Secretary-Treasurer Mortgage Bankers Association of America,
Washington, D. C.

DEAR MR. PATTERSON: The Chicago Mortgage Bankers Association, through its various committees, has given serious consideration to the proposed amendments to the National Housing Act. The viewpoints hereinafter set forth have been adopted by the executive committee of the Chicago Mortgage Bankers Association and you are hereby authorized to express and submit the statements contained in this letter to the Committees on Banking and Currency now considering the proposed amendments.

The Chicago Mortgage Bankers Association is in sympathy with any sound legislation which will tend to stimulate recovery in this country. It is not opposed to those phases of the proposed amendments which will attempt to accomplish this purpose; however, it is the strong feeling of the Chicago Mortgage Bankers Association that certain phases of the proposed legislation will only superficially stimulate the recovery of building in this country and will ultimately prove unsound and, in the long run, will seriously impair recovery.

The principal objections to the proposed amendments to the Housing Act by the Chicago Mortgage Bankers Association are the following:

1. (a) In many States, particularly in the States of the largest population, such as New York and Illinois, the cost of acquisition of title to property upon foreclosure is tremendously high. This is illustrated by a quotation from an article entitled "Mortgages and foreclosures" appearing in the Federal Home Loan Bank Review, volume 4, number 2, page 42, as follows:

"In Illinois it costs over $300 to foreclose a $5,000 mortgage and takes over a year and a half. The cost of the delay to the mortgagee, including interest on the investment, accrued taxes and insurance, and depreciation, has been fairly estimated as $2 a day. The total cost, then, is about one-fourth of the mortgage. It is obvious that in this State a lending institution which makes loans for more than 65 percent of the appraised value of the securing property has inadequate protection. It is also obvious that a delinquent borrower cannot be carried when his accumulated taxes, interest, insurance, and other carrying charges have increased the total debt to over three-fourths of value of the security."

In New York the cost of acquisition of title to property upon foreclosure is only slightly less than that in Illinois. The ultimate cost, therefore, to the Government in acquiring titles to foreclosed properties will be excessive in a good number of States. It is obvious that if the cost of acquisition of title to defaulted properties is 25 percent of the investment, as is the experience of the Home Owners' Loan Corporation in Illinois, a 90-percent loan, as proposed by the amendments, is economically unsound. This cost of acquisition in turn must be made up by increased taxation. Increased taxation in turn will seriously impair recovery. This is really a process of "robbing Peter to pay Paul."

(b) Regardless of the high costs of foreclosure in any particular State, as a clear demonstration of the unsoundness of mortgage loans made up to 80 percent of what is regarded as fair value of the property, reference is made to the experience of the Home Owners' Loan Corporation which reports show has acquired titles to houses throughout the United States for the first 9 months of 1937 at the rate of over 4,000 houses per month, which figures do not include over 21,000 properties bought in by Home Owners' Loan Corporation at foreclosure sale but awaiting expiration of the redemption period before title in absolute fee can be obtained.

Reference is also respectfully made to the large volume of farm lands acquired by the Government through its various farm credit agencies. It is the honest and strong feeling of the Chicago Mortgage Bankers Association that such large acquisitions of urban and rural properties acquired and to be acquired by the Government or any of its agencies is contrary to the concept of our democratic form of government.

2. Experience has taught lending institutions over the past decade that owners of multiple dwellings will be less zealous in protecting their investments in their properties than the owners of single dwellings. In most cases the owners of larger units are corporations designed to avoid personal liability on obligations. When income of multiple dwellings reaches the point where it does not pay operating expenses, taxes, interest, and amortization of principal, the owners, whether individuals or corporations, will default on their obligations and will absorb the income of the property until such time as the mortgagee exercises his rights by legal proceedings to protect his investments. The larger the investment of the equity owner of a multiple dwelling, the more likelihood of a mortgage being maintained; consequently, it is our opinion that if legislation is enacted liberalizing the present Federal Housing Administration Act, the mortgages to be insured under the proposed amendment on multiple dwellings should be reduced from 80 percent to 70 percent (which is nearer to a safe investment as recommended by the Home Owners' Loan Corporation) to be on a sound, economic basis.

3. Cost of present construction is practically on the level, if not higher, with the highest peak of construction costs which prevailed during the years 1925-29. If mortgages are insured under the proposed amendment, where the amount loaned is equal to 90 percent on those properties under $6,000 in the case of single dwellings, and 80 percent on those properties in excess of $6,000, any subsequent reduction in the cost of construction will entirely eliminate equities in the properties on which these mortgages are insured. In view of the desirability of lower cost of construction to stimulate a greater demand for dwellings, as advocated by the President, defaults will shortly occur in those cases where loans are made at the time the costs of construction are substantially high.

4. As stated above a 90-percent loan on dwellings under $6,000 is a hazardous investment and economically unsound. If, however, it is felt that such loans are immediately necessary in order to stimulate construction, the Government, which means ultimately the taxpayer, should have additional safeguards. Analogies for these additional safeguards can be drawn from practices which prevail in Great Britain. In that country, a practice has grown up where persons other than the owner of the equity, who are financially interested in the construction of dwellings; such as building contractors, real estate developers or the building supply dealers, or any of the persons immediately benefiting from the construction of a dwelling, take some part of the responsibility for a mortgage loan by guaranteeing to the mortgagee payment of that portion of the loan in excess of a certain given percentage.

From the experience of the Home Owners' Loan Corporation in Illinois, it has been demonstrated that any loan over 65 percent of the value of the property is economically unsound. Assuming that a loan of 75 percent of the value of the property is justified—and the Chicago Mortgage Bankers Association feels that a 75-percent loan is exceptionally liberal—anything over and above the 75 percent should be guaranteed by other persons financially interested in the construction of a dwelling. Also the administrator of the act should be satisfied as to the responsibility of the guarantors. Under this type of arrangement, the home buyer would receive 90-percent financing and the lending institution would receive additional protection to the extent of the differential.

In conclusion, we repeat that the Chicago Mortgage Bankers Association approves any action or legislation which will facilitate new housing wherever needed throughout the Nation provided such action or legislation is based on sound economics in order to be of lasting benefit to the country.

Respectfully submitted.

W. L. Cohrs,
Chairman, Executive Committee.

Statement of F. P. Sadowski, President, Century Mortgage Co., 1523 Barlum Tower, Detroit, Mich.

The general idea back of the proposals to encourage construction and financing of housing on a large scale is one of extraordinary merit, and the program deserves the full support and cooperation of all good Americans.

Living conditions and general economic conditions will be greatly improved if the proper measures and precautions are taken in the furtherance of this plan, and provided all phases of the problems involved are taken into consideration.

I am going to take up various points of the proposed plan which I think should be given further thought and study, and I am then going to offer certain suggestions which I think will meet with the approval both of the administration and of those who are at present opposed to the new housing plan.

After all, the administration is not seeking to antagonize or discourage private construction and financing, but rather, to encourage further activity in this direction.

It is not my intention to go into all of the reasons why we should lend our full support and cooperation to anything which will improve living conditions for those in the lower wage brackets, but instead, I will devote my entire discussion to the methods by which this can be accomplished.

Naturally, it would be ideal if costs could be reduced, larger percentage mortgages made, and financing charges reduced, and to this end I have made an extensive survey of the experience of those who have been actively engaged in the construction and financing of homes under the Federal Housing Administration plan. I therefore offer for your consideration and study my findings, as follows:

CUT IN COST OF CONSTRUCTION NOT REASONABLE OR JUSTIFIED

Present material prices are well in line, and there is little justification for a reduction of manufacturers', wholesalers', or retailers' prices. Take one item—lumber—as an example: The mills cannot be expected to produce at lower cost, for they are not making more than a fair profit at the present time, and they cannot hope to cut wages, as the average mill hand is today getting only 30 cents an hour. Neither can the wholesalers or retailers be expected to reduce prices, for their merchandising margins are within reasons. The biggest item which goes to make up the final retail price is the heavy freight costs, but apparently the recent rate increases and agitation on the part of the railroads for further rate increases make reductions along these lines improbable.

As far as the other elements in the construction industry are concerned, about the only possibility for a decrease in costs is through volume building and by inducing a more cooperative attitude from labor. I am a strong advocate for higher wages up to certain justified limits, but certain labor elements have increased labor rates and encouraged restrictive practices to such an extent that private capital and private industry is apprehensive as to what their next moves will be, and are therefore more cautions than they otherwise might be in developing new projects. In the building trades, for example, the unions are demanding absurd rates for common labor, classifying same as "skilled" labor. They fail to take into consideration that there is very little actual skilled labor available today in the building trades, due to the stagnant state of affairs in this field over the past several years. It will take time for the building industry to again train crews, but once trained they will be worth top rates, as the waste which is created by unskilled workers will be eliminated to a large extent and the savings thus effected will naturally gravitate into other channels. The laws of supply and demand should regulate wage rates for skilled labor, but I do think there should be a definite minimum rate for common labor. Let individual enterprise and ambition be the yardstick by which a man's value to his employer is measured. The unions should take these factors into consideration, and should not insist on top wages for those who are mere apprentices.

The builders and contractors have had no picnic in their attempts to again establish themselves in the building industry, and the various obstacles which have confronted them have been more than most of them could bear. Many competent builders and contractors have gone under during the past year because of the fluctuating wage and material cost scales. New contractors and builders keep coming into the field, attracted by the apparent need for more housing facilities and encouraged by the financing possibilities through 80 percent Federal Housing Administration mortgages, but old timers and newcomers alike have been equally unable to cope with the situations which have arisen, and those who have been able to keep their heads above water are fortunate, indeed.

The present uncertainty which has been created by the propaganda concerning the proposed cut in costs and financing, and the possibility of 90 percent mortgages, will definitely retard the building industry until such time as all these matters are worked out and a final plan agreed upon, and I therefore urge that whatever is to be done be speedily accomplished, so that the present structure will not be further broken down.

WHY FINANCING COSTS CANNOT BE DECREASED

Under the present Federal Housing Administration plan, a mortgagee is allowed to charge 5-percent interest on the mortgage, and one-half of 1 percent per month on the declining balance for collection services, plus an initial service charge of 1 percent (with a minimum of $20) for making the mortgage. The mortgagee also collects one-half of 1 percent per month on the original principal amount of the mortgage for the Federal Housing Administration insurance premium.

The average lending institution is satisfied with only 4½ percent net return on the mortgage itself, but one-half of 1 percent per month on the declining balance is not sufficient to cover the cost of servicing mortgages which have an original principal of less than $5,000. The large insurance companies, who work through correspondents in various localities, usually take only 4½ percent net, and turn the other one-half of 1 percent back to their loan correspondent, which, together with the one-half of 1 percent which they are allowed to charge for servicing, is then sufficient to carry the overhead of the loan correspondent on collections. The RFC Mortgage Co. apparently recognizes this fact, as it refunds one-half of 1 percent of the 5-percent interest on the mortgage itself to the mortgagee from whom the mortgage was purchased, and who is servicing such mortgage.

I therefore propose that the interest return remain at 5 percent, and further, that the initial service charge remain at 1 percent but that the minimum be placed at $40 instead of $20, as this will encourage lending institutions to handle the lower bracket mortgages. I am told that the overhead to process a Federal Housing Administration loan to completion is all of $40.

Consider a case where the Federal Housing Administration valuation is $3,000, which under the new 90-percent plan would allow the mortgagor to borrow up to $2,700. Under the present rules and regulations the mortgagee is allowed to charge only 1 percent, or $27, whereas his cost of overhead for processing the mortgage is at least $40. At the present time, the only outlet for a mortgage of this character is to the RFC Mortgage Co., which buys mortgages at 99½, which in itself calls for an outlay of $13.50, leaving only $13.50 to defray all overhead to process the mortgage, thereby bringing about a direct loss of $26.50 to the mortgagee on this type of mortgage.

In setting the cost of overhead at $40 per case, I am using the actual experience of those engaged in handling Federal Housing Administration mortgages, where a large part of the volume has been directed to the RFC Mortgage Co.

The cost of servicing a $2,700 mortgage is just as great as the cost of servicing a $10,000 mortgage—notices must be mailed out in the one case the same as in the other, and collectors must make personal calls when necessary. The bookkeeping alone calls for seven entries each time a payment is made, as follows: (1) Principal payment credited, (2) interest payment credited, (3) amount for city taxes escrowed, (4) amount for county and State taxes escrowed, (5) Federal Housing Administration insurance premium escrowed, (6) fire and windstorm insurance payments escrowed, and (7) the one-half of 1 percent service charge credited. If the mortgage itself is held by someone other than the serviving agent, then it is also necessary for the servicing agent to make full accountings to such assignee on items collected.

As to a decrease in the present Federal Housing Administration insurance premum of one-half of 1 percent per month on the original principal amount of the mortgage, to one-half of 1 percent per month on the declining balance, I do not believe this should be done, as the reserve fund should be substantial enough to protect the mortgage against foreclosure losses.

90-PERCENT MORTGAGES NOT ATTRACTIVE TO LARGE LOANING INSTITUTIONS UNLESS FEDERAL HOUSING ADMINISTRATION GUARANTEES AGAINST LOSSES ON FORECLOSURES

A 90-percent mortgage is not in line with conservative mortgage practices, and the larger loaning institutions backed by private capital will never be persuaded to make 90-percent mortgages unless the Federal Housing Administration protects them against loss by reason of foreclosure.

As it now stands, a mortgagee can obtain debentures for the principal amount still owing on a defaulted mortgage, plus interest at the rate of 3 percent from the date of commencement of foreclosure to time of conveyance of the property to the Administrator, plus taxes and fire and tornado insurance premiums which are advanced. However, the mortgagee must absorb the attorney fees, cost of foreclosure, and interest for the period not covered by the debentures, as well as the cost of rehabilitation of the property. If the Federal Housing Administration would put a guaranty on the claim for a period of 5 years, which would permit the mortgagee to set up a reserve during that period of time to take care of any losses due to foreclosure, I think the loaning institutions would be more kindly disposed toward these higher percentage mortgages.

Even on 80-percent loans at the present time, these institutions must pick and choose, or they will find themselves faced with heavy foreclosure costs, and no reserve set up to take care of such expense. The suggested guaranty by the Government would invite the banks and insurance companies to make mortgages to individuals in the lower-income bracket.

The cost to rehabilitate a property might represent serious loss to the mortgagee, and it would be my recommendation that the Federal Housing Administration clearly define, or entirely eliminate, from paragraph 7 of article VI in the Federal Housing Administration rules and regulations, the terms "waste" and "subsidence caused by mining operations", so that mortgagees might know what would be expected of them in the way of rehabilitating properties before tendering possession thereof to the Government in exchange for debentures.

The cost to rehabilitate a dwelling and turn it over to the Administrator free of waste, in event of default, might prove so exorbitant that the mortgagee would suffer a serious loss on foreclosures, for the Federal Housing Administration has never clearly defined "waste", and the requirements in this respect might be so high that the mortgagee would suffer heavy losses.

Even in the case of 80-percent mortgages, loaning institutions are very particular as to the credit risk of the borrower. They are interested in the permanency of the borrower's position, and his ready assets such as cash or cash surrender value on insurance policies, so that in the event of a lay-off of sickness he can tide himself over; and they will go the full 80 percent only when entirely satisfied on these points.

To best illustrate my contention in this respect, I will give you actual examples:

Today, on the 80-percent basis, an individual can borrow $2,400 on an Federal Housing Administration valuation of $3,000, which means he must have an equity of 20 percent, or $600. After living in the property for 6 months, and the principal amount has been paid down to approximately $2,350, he defaults in his payments, and the mortgagee must then institute foreclosure proceedings. Estimating the expense of foreclosure at approximately $150, and rehabilitation costs at another $150, the mortgagee must make an outlay of at least $300 before he can secure debentures from the Administrator in exchange for the property. During the 6 months that the mortgagee has held the mortgage, he has received only the interest, which would not be sufficient to absorb the costs of foreclosure. Therefore, to come out without loss in a case such as this, the property would have to be resold for at least $2,600 or $2,700.

Now let us take the same case, only on the basis of a 90-percent mortgage. On the $3,000 Federal Housing Administration valuation, an individual could borrow up to $2,700, instead of $2,400, having an equity of only 10 percent, or $300. After living in the property for 6 months he defaults in his payments, having paid the principal down to approximately $2,650. Considering foreclosure expense and the cost of rehabilitation at $300, the same as in the previous instance, the property would have to be resold at its original full Federal Housing Administration valuation plus a 5 percent selling commission, to assure the mortgagee of no loss. While this might be possible during a rising market, provision must be made for the lean years when values may drop considerably.

The large loaning institutions are not going to look with favor on 90 percent mortgages unless they can be assured of protection against loss during at least the first 5 years of the life of the mortgage.

ENABLING LEGISLATION SHOULD BE ENACTED TO REDUCE PERIOD OF REDEMPTION IN VARIOUS STATES

At the present time the period of redemption on foreclosures is a year in some States. If 90 percent mortgages are granted in these States, there is too much temptation to the borrowers to obtain such a mortgage with the deliberate intention of taking advantage of the present foreclosure laws, figuring that a 10 percent equity would be considerably less than the amount they would pay out for rent during the 15 or 18 months it would take for foreclosure.

MARKET MUST BE PROVIDED FOR LOWER BRACKET MORTGAGES

Before going into an expansive housing program and encouraging the public to believe that there will be no difficulty in obtaining 90 percent Federal Housing Administration insured mortgages, I think Congress should authorize the Reconstruction Finance Corporation Mortgage Co. to encourage in every way possible national mortgage associations. Instead of limiting the capital stock to $1,000,000, I think this minimum should be cut to $500,000, with the Reconstruction Finance Corporation matching 4 for 1 in preferred stock, rather than 2 for 1. This would encourage private capital to go into the national mortgage association venture.

To date there has not been a sufficient volume of mortgages available to permit a national association to do a profitable business, but since 90 percent mortgages are to be encouraged by the Government, there will be a tremendous increase in the number of mortgages available.

Unless it were profitable for a national mortgage association to enter into this field of endeavor, you will find opposition in this direction, because a national mortgage association buying mortgages at par or over will not be able to sell debentures for more than 3½ percent, and the difference of 1½ percent between the 5 percent interest collected on such mortgages and this 3½ percent return on debentures would not represent too great a profit to such mortgage company.

In summation I would recommend that the following be done:

1. The Federal Housing Administration insurance premium be allowed to remain as it is today, i. e., one-half of 1 percent per month on the original principal amount of the mortgage for the life of the mortgage, which will build up sufficient reserve to take care of all Governmental guarantees of Federal Housing Administration insured mortgages.
2. Amend the Federal Housing Administration rules and regulations to the extent that the mortgagee will be able to obtain debentures from the Administrator in exchange for the property in event of foreclosure not only for the paid-down principal amount of the mortgage but for an additional $100 to cover foreclosure costs; and accept the property in an as-is condition if foreclosure proceedings are commenced within the first 5 years of the life of the mortgage.
3. Leave the interest rate at 5 percent, rather than reduce it to 4½ percent.
4. Leave the initial service fee of the mortgagee at 1 percent, with a minimum of $40 instead of $20.
5. Take into consideration the necessity of enacting enabling legislation which will reduce period of redemption in States which now have a 1-year redemption period.
6. Arrange a definite outlet for 90-percent mortgages.
7. Refrain from making the burden on builders and building trades any heavier than it is today.

Statement Submitted on Behalf of Queens-Nassau Home Builders League, Inc., Jamaica, N. Y.

As representatives of a group of the largest home builders in the United States and, at the same time, builders of the greatest number of homes under the Federal Housing Administration, we strongly urge that the proposed amendments to the Federal Housing Administration bill, limiting the 10 percent down payment only to those homes appraised up to $6,000, be revised as follows:

1. Ten percent down payment on homes appraised up to $6,000.
2. On homes appraised up to $10,000, 10 percent on the first $6,000 of the valuation and 15 percent on amounts in excess.

3. On homes exceeding $10,000, 10 percent on the first $6,000 of appraised value, 15 percent on the next $4,000, and 20 percent on amounts in excess thereof.

Our reasons in support of our plan are as follows:

Metropolitan areas, such as ours (and these areas cover a very considerable part of our population) embrace a large potential market for the buyers of homes costing over $6,000.

We have found, through actual contact with builders, that a large number of these home buyers have shown themselves in the market within the past year and would form a substantial part of the home-buying public if they could purchase with a down payment based upon the above recommendations.

TYPES OF BUYERS

This market is comprised of men in the $3,000 to $5,000 wage-earning class who, like all others, found themselves at the end of the depression in a financially strained condition. As a matter of fact, their straitened circumstances were even more pronounced than those of the lower wage earning group because of the high standard of living to which they were accustomed and, in a measure, had to continue even during the depression.

Although these prospective home owners have been able to extricate themselves from the effects of the depression, they have not, for the most part, been able to accumulate enough money to comfortably invest 20 percent in a down payment on a home. It is unreasonable, therefore, to expect these prospective purchasers to invest, as a down payment on a home, proportionately twice as much as the buyer of a home in the $6,000 or less class.

The legislation suggested in the original amendments falls within the category of "class legislation" since it operates only to the advantage of the buyer in the lower-price bracket, without consideration for the home buyer in the somewhat higher-price bracket.

Aside from all other considerations, it is a mistake to practically keep out of the market this family man in the $3,000 to $5,000 salary range since he needs and wants a home; he is an excellent credit risk because of his high earning power and his ability even in times of depression to fit himself into an earning position, even if it be one of decreased income; and, further, statistics prove that this man is a most stable and reliable factor in the life of any community.

Why exclude him from the present market? It is unfair.

FINER HOMES

This limit of $6,000 would immediately discourage the building of finer homes and better neighborhoods, an asset to any community. The home builders will, of necessity, be forced into the $6,000 or less bracket with a result that communities will be built up almost entirely of smaller houses, on smaller plots of ground, probably attached or semiattached, in long, monotonous, uninteresting ranks; in effect they will be tenements built horizontally rather than vertically. This will be a farewell to the aesthetic note which has been rapidly gaining a hold in the home-building field and supplying for growing children than finer environment which tends to make better citizens.

VARIED COSTS

Owing to the various climatic conditions in the United States, it is obvious that the standards of construction must vary as these climatic conditions vary. For instance, in the colder regions of the United States, houses must be built to include vestibules, cellars, heating, insulation, wind bracing, and other weather-and storm-proof items to withstand the range of elements that are experienced. These definite requirements result in a higher cost per unit in these sections than in sections where more temperate climates prevail. In addition, the land costs in metropolitan areas, such as ours, are considerably higher than in rural areas; ordinances and local laws require heavier pavements, sewer systems, and more exact grading; and wages in and around the metropolitan areas are much higher than in other sections.

It can be readily seen, therefore, that these factors which tend to create such a great variation in the cost of a home between one section of the country and another make it possible for a $6,000 home in a certain section of the country to meet such standards as would necessitate the expenditure of several thousand dollars more in a section of the country such as ours.

CONCLUSION

As experienced builders, having daily contact with the home-building public, we feel that the down-payment plan as outlined above is absolutely necessary to the complete success of the new Federal Housing Administration amendments and strongly urge their adoption.

Respectfully submitted.

QUEENS-NASSAU HOME BUILDERS LEAGUE, INC.,
A. B. WOLOSOFF, *President.*

RESOLUTION ADOPTED ON NOVEMBER 17, 1937, AT THE ANNUAL CONFERENCE OF THE UNITED STATES CONFERENCE OF MAYORS, WASHINGTON, D. C.

Whereas under the present law establishing the Federal Housing Administration that agency is empowered to insure construction loans up to 80 percent of the value involved; and

Whereas there is now under consideration a proposal to raise such insurance to 90 percent of the value involved; Therefore be it

Resolved, That the United States Conference of Mayors go on record in favor of this larger stimulation to private home building.

INCREASING THE EFFECTIVENESS OF FEDERAL LEADERSHIP IN HOUSING

(By Richard A. Staderman, of New York, N. Y., and Washington, D. C., president and editor of the Democratic National Research League; chairman of the board of governors of the American Good Government Society; economic adviser to certain Members of Congress, and so forth)

Mr. Chairman and members of the Banking and Currency Committee, millions of Americans want to buy homes.

How to arrange to get the person and the home together under suitable financial arrangements is the reason for the hearings you are now holding.

Millions of Americans could buy these homes if it were not for the size of the down payment, as President Roosevelt has pointed out.

Yet even a down payment reduced to 10 percent of the principal amount is beyond the reach of many who could very well manage to pay off a home at so-much a month.

To accumulate $500 or $600 surplus to make a down payment is just as much a practical impossibility for them as to acquire $1,000 or $1,200 as required under present conditions.

It would be quite a different story if we could say to these folks: "As long as you are the right sort of persons of good character and proven ability and willingness to pay bills when due, we'll take a chance on you and let you acquire your home on a basis of a small down payment and subsequent installments not much more than what you would pay as rent."

As a practical matter, persons could afford to make a down payment of only 1 percent and, say, 1 percent a month in installments, and still be good credits risks on the average. Part of the 1 percent could go for paying off the principle, and part go for such items as insurance, taxes, and such.

Thus $30 down and $30 a month should be able to adequately pay off a $3,000 home or $50 down and $50 a month to take care of a $5,000 one.

These are amounts which the average man can manage, whereas a down payment of $500 would be just as astronomical and difficult as one of $1,000,000—at least, in millions of cases.

If we really want to get on a sound basis of housing promotion, we must get to those whose income levels are near the bottom. We must enable even those on relief to have hopes of getting their own home as soon as they can get a regular job.

In helping those at the bottom of the income scale, we incidently tap the largest market of mass purchasing power. But in order to mobilize that purchasing power we must clear away the obstacles of impossible down payments as well as of dwellings overpriced for the buyer's ability.

We have already had nice homes constructed under the Federal Housing Administration for less than $3,000 complete. Costs must be reduced still further, and with, say, a 1-percent down payment, there will be no obstacles for responsible persons. For rented apartments cost reduction is also in order, having in

mind such a goal as the Kilsyth development in Scotland, where with the aid of Government subsidy a five-room aparatment in a new structure can be rented for the unbelievable sums of $5 or $6 a month in our money.

HOUSE OF REPRESENTATIVES,
Washington, D. C., December 7, 1937.

Hon. HENRY B. STEAGALL,

MY DEAR COLLEAGUE: I should appreciate it if you will include the attached statement by Richard A. Staderman in the present hearings, in which he takes up what I believe is one of the most fundamental points in the entire matter of the success of the objectives of the bill.

With kind regards, I am,

Very sincerely yours,

CHARLES G. BINDERUP.

STATEMENT ON BEHALF OF SHAREHOLDERS IN BUILDING AND LOAN ASSOCIATIONS IN THE STATE OF NEW JERSEY, BY THERON MCCAMPBELL, OF HOLMDEL, MONMOUTH COUNTY, N. J., CONCERNING CONGRESSIONAL PLANS FOR STIMULATING THE HOME BUILDING INDUSTRY

Hon. HENRY B. STEAGALL AND
MEMBERS OF THE COMMITTEE ON BANKING AND CURRENCY.

GENTLEMEN: At the peak of their prosperity the building and loan associations of New Jersey had book assets of $1,185,000,000, represented by 15,874,000 shares held by 1,219,000 persons, of which 270,000 were borrowing members. These figures have been deflated since 1929 by about 50 percent and for the same reason, largely, that the home-building industry in the State of New Jersey has been deflated to a mere shadow of its peak prosperity. There are over 500,000 separate homes in the State of New Jersey today, many of which are in need of repairs and modernization.

The Federal Government cannot be blamed for the present deflated state of the building and loan associations or for the present low state of the home-building industry in New Jersey.

Nothing that the Federal Government has done is delaying the revival of the building industry.

The blame for the depression in the building and loan business and the home-building industry rests squarely upon the State, county, and municipal governments of New Jersey.

By capital levies upon visible capital only—that is, upon capital in the form of homes and other improvements—the governments in the State of New Jersey have crucified the building industry.

Not until this strangle hold on visible capital by the New Jersey tax collectors is broken by Federal action can there be a revival of prosperity for the home-building and building and loan business of New Jersey.

It was not the panic of 1929 or the gold standard or the labor unions or the lack of farm profits which sunk the building industry 8 years ago in New Jersey.

Instead it was the gradual lifting of the yearly local tax rate on visible capital—that is, capital in the form of homes and other improvements—from 1 percent on a 50-percent valuation as before the war, to the present rate of near 5 percent a year on inflated assessments.

Capital levies, under the guise of the general property tax, is what killed the building industry of New Jersey, and nothing under heaven that the Federal Government can do, along the plans before you, can rescue or revive the building industry in New Jersey until after the Federal Government has persuaded our State, county, and municipal governments to abandon taxing the principle of visible capital, as they long since abandoned the taxing of the principle of invisible capital.

Contrary to the constitutional law in New Jersey, the owner of invisible property in the form of cash, stocks, bonds, or mortgages in not taxed, either on principle or income of his invisible property. However, if the same amount of case of invisible capital is used in building a home it is taxed at near 5 percent a year. If the owner of $10,000 of invisible or cash capital invests it in a $20,000 building carrying one-half on mortgage the owner must pay about 5-percent tax on $20,000, if the building is in Monmouth County. Is it any wonder that the building industry is in a state of depression?

New Jersey does not need Federal money or credit in order to restore the building industry to a prosperous state. There is an abundance of invisible capital in New Jersey ready to be converted into visible capital in the form of homes and improvements as soon as the local taxes are either removed entirely, as in Sidney, Australia, or limited to 1 percent on an honest valuation, as in the State of Ohio.

The Federal Government can accomplish the desired results, which will start a never-ending home-building boom in the State of New Jersey, in one of two ways:

First, by adopting the long-advocated plan of the tax authorities of Columbia University, which calls for the Federal Government collecting all income, inheritance, corporation, and sales taxes and prorating one-half of such taxes to the States for the support of public education and eleemosynary institutions, provided no form of government within the State levies a tax on visible capital in any form—that is, on homes, buildings, and all other forms of improvements on land—which is the modern practice and notably successful in Sidney, Australia, and other municipalities throughout the world.

The second plan by which the Federal Government can induce governments in the State of New Jersey to untax visible capital in the form of homes and improvements is to put in all contracts that no tax lien or local mortgage can run ahead of the claim of the Federal Government or any institution set up by the Federal Government for the purpose of encouraging the building industry in the State of New Jersey.

The cost of building homes in New Jersey, due to labor costs, may be left to competition. Now there are a number of workmen idle for every job available under which condition the law of supply and demand will regulate wages. The first impulses in the revival of the building industry in New Jersey will start in suburbs and small towns where local help is now reasonable. Then there is an immense drift of labor from the farms into the towns which labor is qualified to engage in home construction. The costs of building in New Jersey will adjust themselves once the industry can be launched, on a sound basis which awaits the removal of local taxes on visible capital or the untaxing of homes and other improvements made on land by labor and capital.

THERON MCCAMPBELL.

WASHINGTON, D. C., *December 2, 1937.*

STATEMENT OF MR. B. G. ORLOVE, JR.

Mr. Chairman and gentlemen of the committee, my name is B. G. Orlove, Jr., of New York City. I am a property owner and greatly interested in the financial aspects of low-rent housing.

To create a large-scale low rent building program amounting to billions of dollars, for the double purpose of:

1. The creation of decent dwellings for low income groups, and,
2. The material improvement of the national economy. This will be brought about by the increased velocity of money. by the employment of labor directly, and by large-scale expenditures for building materials, resulting in indirect employment of labor.

A plan is hereby proposed whereby millions of rooms can be built to be rented between $6 and $7 per room per month, without the necessity of Federal grants, without the necessity of Federal or other subsidies, and without the necessity of municipal real-estate tax exemptions. As a matter of fact the revenues derived by municipalities through real estate tax levies will be increased by 10 percent, so that the municipalities will be enabled to reduce their tax rates by 10 percent for the benefit of all present property owners.

The crux of the plan is to authorize the creation of a specially chartered bank, under the National Banking Act, with a paid in capital and surplus of $500,000,000. Fifty million dollars are to be subscribed in the form of common stock, by private interests, and $450,000,000 are to be subscribed in the form of preferred stock by the Reconstruction Finance Corporation. (This is for the purpose of avoiding objection that the Federal Government is entering the banking business in competition with existing banking interests. It is suggested that an outstanding banker, possessing national reputation and enjoying the confidence of financial interests, head the new bank.) The bank is to be a member bank of the Federal Reserve System. With a $500,000,000 capitalization, it would be the largest bank in the country.

The functions of this bank are to be different from any other national bank. It is not to be permitted to accept deposits or extend loans to private individuals or corporations. It may accept deposits from municipalities or other governmental units or agencies. It also may accept deposits from other banks. All powers and restrictions to be specifically mentioned in its special charter.

The bank may lend money only to municipalities. The funds so advanced are to be used by the borrowing municipality for no other purpose than to build low-rent houses. No loan may exceed a period of 40 years. No loan may carry an amortization rate of less than 2½ percent per annum.

As security for a loan, the municipality would have to execute and pledge a first mortgage against the property. It would also have to issue its bond and mortgage for the amount of the loan, and would have to execute a rental assignment for the benefit of the mortgagee bank. This rental assignment is to become effective if an interest or amortization payment should remain in default for more than 15 days. The interest on the mortgage loan is not to exceed one-half of 1 percent per annum. Later it will be shown that a bank of this character can lend money at this rate of interest and still operate without losses.

By issuing its bond and mortgage a municipality may borrow up to 100 percent of the cost of construction. The bank may not extend to a municipality a greater credit than 10 percent of the assessed value of the municipality under any circumstances. (See table A, Credit ratings for municipalities.)

The value of improved real estate is not governed by the cost of construction, but rather by the important question—can the property find a tenant at a fixed rental. If this rental income is sufficient to pay during the life of its mortgage loan all running expenses of the property, including its upkeep, taxes, interest, and amortization then a solid mortgage security is created, provided the amortization payments are made at a rate more rapid than the depreciation of the building.

For example, if an office building (like the Empire State) at a cost for example of $30,000,000 were erected in Westchester County, a mortgage loan of only 33⅓ percent of the cost of construction would be a very bad mortgage security, whereas a one-story taxpayer costing $100,000 and located at Times Square, in New York City, and with a tenant who pays $100,000 annual rent, in such a case a mortgage of $300,000 would make a very good security, even though the mortgage amounts to three times the cost of construction.

There is no question that there is a tremendous demand for low-rent housing. No projects will suffer on account of vacancies. As a matter of fact the municipalities shall be forced to limit the renting of apartments to families with low incomes. The maximum family income eligible to occupy an apartment should be restricted. No family, with an income greater than $1,200 annually shall be permitted to occupy an apartment in a low-rent housing project.

As will be shown later, a rental charge from $6 to $7 per room per month is sufficient to cover all expenses, including administration, upkeep, insurance, taxes, and interest and amortization, provided the charge for mortgage interest is held down to one-half of 1 percent per annum on the diminishing balance, and the amortization does not exceed 2½ percent per annum.

Surveys prepared by and for the Government by qualified authorities prove that there is an underlying demand for millions of rooms at low rentals. The total assessed value of real estate for municipal tax purposes exceeds one hundred billions of dollars in the United States.

The bank would receive from the borrowing municipality its bond and mortgage for the money loaned.

The bank, by endorsing the obligation of the municipality, could offer this collateral to the Federal Reserve Bank (of the district where the municipality is located), as security for a member bank loan.

The collateral so offered to the Federal Reserve Bank is prime security because each dollar is backed up by—

(1) A first mortgage on a property, which, it is clear, will at all times be fully occupied at a rental which covers all expenses including interest and amortization charges.

(2) A bond of the solvent municipality who owns the property.

(3) By the endorsement of the largest member bank, which has a fully paid-in capital and surplus of $500,000,000.

The Federal Reserve bank can in turn deliver the collateral (if need be) to the Federal Reserve agent of the Federal Reserve Board who in turn with the approval of a majority of the Board of Governors of the Federal Reserve System can deliver to the applying Federal Reserve bank Federal Reserve notes.

The interest on such loans to be charged by the Federal Reserve Board to the Federal Reserve banks, and in turn by the Federal Reserve banks to the new national bank, is to be the average interest rate prevailing for the last 3 years, for Federal Reserve funds.

In the charge of $6 to $7 per room per month rental is an item of $2.29 included, which latter sum is to take care of the municipal real-estate tax. (The figure of $2.29 monthly is taken according to the tax rate prevailing in New York City, which amounts to $2.75 and also assuming the cost of construction at $1,000 per room.)

In the event of a default of an interest or amortization payment by the property, the mortgagee bank would have the right, by agreement, to enter the premises and to collect the rentals directly.

Because the municipality is the owner of the property and executed its bond and mortgage for the loan, the bank's agent, in the event of a default, would first retain the rentals collected, to liquidate his claims, before paying over to the municipality the real estate tax. In other words, the following result is accomplished. Even though the National Housing Bank loaned 100 percent of the cost of the structure, the risk is not as great, because although the property will be easily rented on a $6 to $7 per room per month basis, the actual risk of the National bank is less the municipal real estate tax. Because in the event of a default of an interest or amortization payment, all the agent would require to cover all claims, after paying the running expenses, like repairs, help, coal, light, insurance, etc., would be at the rate of $3.71 per room per month if the rentals were originally calculated on a $6 per room per month basis, and $4.71 per room per month if the original calculation was based on a $7 per room basis, because the municipal real-estate tax claim of the municipality amounting to $2.29 per room per month, is automatically inferior to the first mortgage, because the tax claimant is the owner of the property involved and is the debtor on the bond and mortgage. The actual requirements for interest and amortization under this plan per $1,000 room would amount to $2.14 per room per month.

It is important to note, that for each dollar expended on low-cost housing, under a system of 60-year mortgages, based on a 3½-percent annual interest rate, the money paid out in the form of interest would amount to more than the original costs. If a $10,000,000,000 low-cost housing program should be effected under the 3½-percent mortgage interest system a larger sum than $10,000,000,000 eventually would have been paid out in interest alone. For the purpose of discussion here it is of minor consequence whether the billions of dollars to be paid out in the form of mortgage interest (if the 3½-percent annual rate is adhered to during the life of the buildings) whether the interest is paid by the Federal Government through subsidies (which again means that the general tax-paying public would have to shell out) or by the tenants. But it is generally agreed that if an interest charge of 3½ percent for first mortgage money is included in the rental calculation, the rents are brought up to such a high level, that the masses of low income groups simply could not pay the required rents. If $10,000,000,000 worth of low-rent houses should be built in the next few years, the interest charge of 3½ percent would amount to $350,000,000 annually. Such a subsidy for 60 years is quite a heavy and unnecessary burden on the general taxpayers. If this plan proposed here to finance the low-rent projects would be adopted, the assessment rolls of the municipalities would be increased by billions of dollars, the real-estate tax collections of the municipalities would be increased by hundreds of millions of dollars annually, and the municipalities could reduce their tax rates on account of these additional revenues, all property owners would benefit through tax reductions.

Credit ratings of municipalities in relation to limits of amounts possible to borrow from National Housing Bank for low-rent projects.

A municipality may issue its bond and mortgage up to 10 percent of its assessed valuation, provided an amount not exceeding 50 percent of its annual real estate tax levy is carried on its books as uncollected taxes, if an amount from 51 to 60 percent is carried as tax arrearage the limit for low-rent project financing would be 7 percent of the assessed valuation, an arrearage of 61 to 70 percent would limit it to 5 percent, 71 to 80 percent the limit should be 2½ percent, 81 to 95 percent would limit it to 1 percent of the assessed valuation. Tax defaults exceeding 96 percent would make the municipality ineligible to finance through this plan its low-rent requirements. All taxes collected, whether final, under protest, or conditionally paid; for the purpose of calculating the credit rating of the municipality, all such collections are to be considered as taxes collected.

JACKSONVILLE, FLA., *November 29, 1937.*

Congressman STEAGALL,
House Office Building, Washington, D. C.

Realtors and home builders assembled here in Jacksonville, Fla., are enthusiastic about the President's message. We hope that all of the things for which he asks will be approved by Congress. The President's recommendations are definitely helpful to small business and especially to homeowners and tenants. Financing institutions have in the past been rescued and protected by Government and we hope that they will not be permitted to block these constructive changes for the benefit of the average American citizen. Our association will gladly do anything you suggest to be of assistance.

NATIONAL ASSOCIATION OF REAL ESTATE BOARDS,
HERBERT U. NELSON, *Exec. Vice President.*

(Whereupon, at 1:20 p. m., the hearings were closed.)

END OF
TITLE